

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

|                                                                                                                                                                                                        |                         |                                                 |                   |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|-------------------------------------------------|-------------------|
| Local Unit of Government Type<br><input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other |                         | Local Unit Name<br>City of Battle Creek         | County<br>Calhoun |
| Fiscal Year End<br>6/30/06                                                                                                                                                                             | Opinion Date<br>11/1/06 | Date Audit Report Submitted to State<br>12/7/06 |                   |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

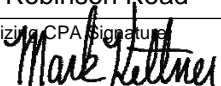
YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

|                                                                                                                  |                                     |                                            |             |                         |
|------------------------------------------------------------------------------------------------------------------|-------------------------------------|--------------------------------------------|-------------|-------------------------|
| <b>We have enclosed the following:</b>                                                                           | Enclosed                            | Not Required (enter a brief justification) |             |                         |
| Financial Statements                                                                                             | <input checked="" type="checkbox"/> |                                            |             |                         |
| The letter of Comments and Recommendations                                                                       | <input checked="" type="checkbox"/> |                                            |             |                         |
| Other (Describe)                                                                                                 | <input checked="" type="checkbox"/> | Single Audit Report                        |             |                         |
| Certified Public Accountant (Firm Name)<br>REHMANN ROBSON                                                        |                                     | Telephone Number<br>517-787-6503           |             |                         |
| Street Address<br>675 Robinson Road                                                                              |                                     | City<br>Jackson                            | State<br>MI | Zip<br>49203            |
| Authorizing CPA Signature<br> |                                     | Printed Name<br>Mark T. Kettner, CPA, CGFM |             | License Number<br>11673 |

# *City of Battle Creek, Michigan*



*Comprehensive Annual Financial Report  
Fiscal Year Ended June 30, 2006*

*Prepared by the Finance Department*

**CITY OF BATTLE CREEK, MICHIGAN**  
**Comprehensive Annual Financial Report**  
**For the Fiscal Year Ended June 30, 2006**

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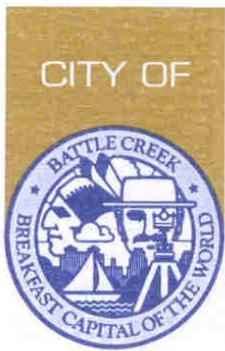
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# INTRODUCTORY SECTION



## BATTLE CREEK

### FINANCE DEPARTMENT

November 1, 2006

**To the Honorable Mayor, Members of the City Commission  
and Citizens of the City of Battle Creek:**

State law requires that all local governments, subject to certain size criteria, publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Battle Creek for the fiscal year ended June 30, 2006.

This report consists of management's representations concerning the finances of the City of Battle Creek. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, City management has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by Rehmann Robson, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2006 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended June 30, 2006 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

## **Profile of the Government**

The City of Battle Creek, incorporated as a City in 1859 and as a Home Rule City in 1913, is located in southwest Michigan, approximately 115 miles west of Detroit and 160 miles northeast of Chicago. It is the largest city in Calhoun County, encompassing an area of 44 square miles, with a current estimated population of 53,364. The City is well known as the breakfast food capital of the world.

The government has operated under the commission-manager form of government since 1961. Policymaking and legislative authorities are vested in the City Commission, which is comprised of nine members including the mayor. The governing council is responsible, among other things, for passing ordinances and resolutions, making public policy decisions, adopting the budget, appointing boards, commissions, and committees, approving contracts, authorizing real estate transactions, awarding bids, selling property, and hiring the government's manager and attorney. Four Commissioners are elected at-large for two-year terms and five Commissioners are elected from the five wards in the City, also serving two-year terms. The City Commission elects a Mayor and Vice-Mayor from among its members.

The City Manager is the chief administrative officer of the City and is appointed by and serves at the pleasure of the City Commission. The City Manager is responsible for carrying out the policies and ordinances of the City Commission, for overseeing the day-to-day operations of the government, and appointing government's department heads.

The City of Battle Creek provides a full range of services including: police and fire protection; the construction and maintenance of highways, streets and other infrastructure; wastewater treatment and disposal; water treatment and distribution; economic development; recreational activities; public transportation services and cultural events.

## **Factors Affecting Financial Condition**

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Battle Creek operates.

**Local economy.** The City's economy is diverse with industrial and commercial categories accounting for 48.8% of the 2006 taxable valuation. The remainder, primarily residential, provides area residents with convenient and affordable housing to take advantage of the City's industrial, commercial, cultural, educational and recreational opportunities. In addition to hosting breakfast food giants Kellogg Company and General Foods Corporation, the City has been quite successful in attracting other major industrial corporations, who have invested in excess of \$740 million in plant expansions and renovations over the past several years.



**Long-term financial planning.** The City of Battle Creek believes long-term financial planning has been and will continue to be an important component to ensure the City's fiscal health. The City Commission has identified economic development and downtown development as two of the highest priorities for the City over the next three years. Battle Creek Unlimited, a non-profit organization partnering with the City to perform economic development, continues to promote and develop the City's Fort Custer Industrial Park (FCIP) and the downtown in an effort to maintain and enhance the City's tax base.

Along with efforts to ensure a future growth in tax revenue, the City has developed a Capital Improvements Program to identify its long-term capital needs and ability to fund the program. Over the next six years, the City has identified over \$122 million in capital needs, with funding sources in place to meet those needs.

From an operational perspective, while the City enjoys a diverse, growing economy, as well as a growing property tax base, factors exist that may constrain the City's fiscal health. The increase in the assessed value of taxable property in the City continues to be constrained by the Headlee Amendment (which limits the annual increase in the State Equalized Value of real property) and the provisions of Proposal A (which limits increases in taxable property values to 5% or the rate of inflation, whichever is less). Taken together, these fiscal factors create a trend of ever-tightening budgets under which the City must operate.

Finally, along with constrained resources, the City faces increasing financial challenges with escalating costs of employee benefits, especially for medical and prescription drug insurance. These issues impose increasing burdens on the City's fiscal structure and pose a possible peril to the long-term stability of City finances. Greater revenue growth and/or cost containment measures will be explored to mitigate future stress on City finances.

## **Awards and Acknowledgements**

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Battle Creek for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2005. This was the seventh consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the government published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the City of Battle Creek. We would like to express our appreciation to all members of the departments who assisted and contributed to the preparation of this report. Credit also must be given to the mayor and the governing council for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Battle Creek's finances.

**Wayne D. Wiley**  
**City Manager**

**James K. Ritsema**  
**Finance Director**

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Battle Creek,  
Michigan

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director



# City Commission

**City Attorney**  
**Clyde Robinson**

**City Manager**  
**Wayne Wiley**

**Assistant City Manager**  
**Ken Tsuchiyama**

|                                                                                |                                                                                                                                                                                                                                                                          |
|--------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Planning &amp; Community Development Director</b><br><b>Mike Buckley</b>    | Inspection Superintendent/Chief Building Official Kim Tuck<br>Community Development Supervisor Al Giguere                                                                                                                                                                |
| <b>Finance Director</b><br><b>Jim Ritsema</b>                                  | Finance Services Manager Mark Haskins<br>Revenue Services Group Manager/<br>City Assessor Judy Mudge<br>Purchasing Agent Christine Jones                                                                                                                                 |
| <b>Employee Relations Director</b><br><b>Russ Claggett</b>                     | Risk Manager James Robinson<br>Human Resources Manager Paul Engels                                                                                                                                                                                                       |
| <b>Parks &amp; Recreation Director</b><br><b>Jeff Hovarter</b>                 | Superintendent of Facilities Linn Kracht<br>Binder Park Golf Course Manager Ron Osborne<br>Business Manager Kevin Smith                                                                                                                                                  |
| <b>Chief Information Officer</b><br><b>Dan Ryan</b>                            | Information Systems Administrator Cindy Hale<br>Special Projects Task Leader Marcia Wentworth                                                                                                                                                                            |
| <b>City Clerk</b><br><b>Susan Bedsole</b>                                      | Deputy City Clerk Deidre "Dee" Laser                                                                                                                                                                                                                                     |
| <b>Assistant to the City Manager</b><br><b>Michelle Reen</b>                   | Reprographics Manager Joe Kleczynski<br>Mail Room, Print Shop,<br>City Hall Maintenance                                                                                                                                                                                  |
| <b>Utilities Director</b><br><b>Ken Kohs</b>                                   | Records Manager Todd Gerber<br>Water Superintendent Dave Rich<br>Wastewater Superintendent Larry DeLong<br>Environmental Program Coordinator Christine Kosmoswski                                                                                                        |
| <b>City Engineer</b><br><b>Chris Dopp</b>                                      | Traffic Engineering Max Phares<br>Streets and Parks Superintendent Jerome Clark                                                                                                                                                                                          |
| <b>Transportation Director</b><br><b>Greg Zanotti</b>                          | Parking Systems Contractor: AMPCO<br>Transit Manager Jerry Hutchison<br>Airport Manager Larry Bowron<br>Equipment Center/Fleet Management                                                                                                                                |
|                                                                                | Assistant Transit Manager Rich Werner<br>Airport Operations Manager James Candors                                                                                                                                                                                        |
| <b>Police Chief</b><br><b>David Headings</b>                                   | Grant Officer Kathy Schley<br>Police Management Services Gary Hall - retiring fall 2006<br>Emergency Services Manager Jim Zoss<br>Patrol Bureau<br>Commander Jackie Hampton<br>Investigative Services<br>Commander Jim Saylor<br>Internal Affairs<br>Inspector Tim Hurtt |
|                                                                                | Lt. Neal Vanderbilt<br>Lt. Mike Sherzer<br>Lt. Duane Knight<br>Lt. Ray Felix                                                                                                                                                                                             |
| <b>911 Dispatch Manager</b><br><b>Jill Fish</b>                                |                                                                                                                                                                                                                                                                          |
| <b>Fire Chief</b><br><b>Larry Hausman</b>                                      | Administrative Battalion Chiefs Mark Lindauer &<br>Richard Herworth<br>Fire Inspection & Prevention "currently being filled" & Ralph Britton<br>Training Officer Tom Lockton                                                                                             |
| <b>Code Compliance Administrator</b><br><b>Dennis McKinley</b>                 |                                                                                                                                                                                                                                                                          |
| <b>Neighborhood and Community Services Director</b><br><b>Cherise Brandell</b> | Neighborhood Organizers<br>NED Administrator<br>Neighborhood Resource Center Coordinator<br>Neighborhoods Code Compliance Officer                                                                                                                                        |

**CITY OF BATTLE CREEK, MICHIGAN**  
**Comprehensive Annual Financial Report**  
**For the Fiscal Year Ended June 30, 2006**  
**List of Principal City Officials**

**Elected Officials**

**City Commission:**

John K. Godfrey, Mayor  
Tony L. Walker, Vice Mayor

Susan Baldwin  
Mark A. Behnke  
Steve Franklin  
Ryan Hersha  
Nancy MacFarlane  
Deborah G. Owens  
Andrew Yankama

**Administration -- Appointed Officials and Senior Management**

City Manager .....Wayne D. Wiley  
Assistant City Manager.....Kenneth H. Tsuchiyama  
Assistant to the City Manager..... Michelle A. Reen  
City Attorney ..... Clyde J. Robinson  
City Clerk.....Susan E. Bedsole  
City Treasurer ..... Stanley J. Chubinski

Directors:

Finance Director ..... James K. Ritsema  
Employee Relations Director .....Russell W. Claggett  
Chief of Police..... David Headings  
Fire Chief..... Larry Hausman

## FINANCIAL SECTION



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP



## **INDEPENDENT AUDITORS' REPORT**

November 1, 2006

Honorable Mayor and  
Members of the City Commission  
City of Battle Creek, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **City of Battle Creek, Michigan**, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Battle Creek's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Battle Creek, Michigan, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparisons for the General Fund and Community Development Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2006, on our consideration of the City of Battle Creek, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters, in a separately issued single audit report. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3-14 and the Police and Fire Retirement System information on page 68 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Battle Creek's basic financial statements. The introductory section, combining and individual fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.



## MANAGEMENT'S DISCUSSION and ANALYSIS

## Management's Discussion and Analysis

As management of the *City of Battle Creek, Michigan*, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i-iv of this report.

### Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$372,625,891 (*net assets*). Of this amount, \$58,855,585 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets decreased by \$1,476,227.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$22,150,322, an increase of \$16,945 in comparison with the prior year. Approximately 89 percent of this total amount, or \$19,721,817, is *available for spending* at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved, undesignated fund balance for the general fund was \$6,687,834 or 15.2% of total general fund revenues and other financing sources.
- The City's total bonded debt increased by \$809,000 during the current fiscal year; general obligation debt totaling \$3,819,000 was issued during the year.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, highways and streets, parks and recreation and community development. The business-type activities of the City include wastewater, water, public transit, solid waste collection and other enterprise operations.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also legally separate entities for which the City is financially accountable. Financial information for these *component units* are reported separately from the financial information presented for the primary government itself. The Building Authority, although also legally separate, functions for all practical purposes as a department of the City, and therefore has been included as an integral part of the primary government.

The government-wide financial statements can be found on pages 15-17 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains 22 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the community development special revenue fund, which are considered to be major funds. Data from the other 20 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 18-26 of this report.

***Proprietary funds.*** The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its wastewater, water, public transit, solid waste collection and other operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its equipment maintenance, self-insurance, information management services and printing/reproduction services. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the wastewater and water system fund and airport fund, which are considered to be major funds of the City. Conversely, all of the internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 27-32 of this report.

***Fiduciary funds.*** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 33-34 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 37-67 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to a schedule concerning the City's progress in funding its obligation to provide pension benefits to its police and fire employees. Required supplementary information can be found on page 68 of this report.

The combining statements referred to earlier in connection with nonmajor funds are presented immediately following the required supplementary information. Combining and individual fund financial statements and schedules can be found on pages 69-90 of this report.

## Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Battle Creek, assets exceeded liabilities by \$372,625,891 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (82.6 percent) reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment, systems and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### City of Battle Creek's Net Assets

|                                   | Governmental activities |                | Business-type activities |                | Total          |                |
|-----------------------------------|-------------------------|----------------|--------------------------|----------------|----------------|----------------|
|                                   | 2006                    | 2005           | 2006                     | 2005           | 2006           | 2005           |
| Current and other assets          | \$ 58,723,679           | \$ 62,416,541  | \$ 25,399,047            | \$ 26,906,676  | \$ 84,122,726  | \$ 89,323,217  |
| Capital assets                    | 234,004,233             | 230,218,875    | 125,243,391              | 129,746,726    | 359,247,624    | 359,965,601    |
| Total assets                      | 292,727,912             | 292,635,416    | 150,642,438              | 156,653,402    | 443,370,350    | 449,288,818    |
| Long-term liabilities outstanding | 29,399,522              | 26,926,824     | 26,369,955               | 27,533,642     | 55,769,477     | 54,460,466     |
| Other liabilities                 | 10,193,886              | 14,521,554     | 4,781,096                | 6,204,680      | 14,974,982     | 20,726,234     |
| Total liabilities                 | 39,593,408              | 41,448,378     | 31,151,051               | 33,738,322     | 70,744,459     | 75,186,700     |
| Net assets:                       |                         |                |                          |                |                |                |
| Invested in capital assets, net   |                         |                |                          |                |                |                |
| of related debt                   | 209,058,967             | 205,272,983    | 98,873,436               | 101,991,510    | 307,932,403    | 307,264,493    |
| Restricted                        | 5,837,903               | 6,909,177      | -                        | -              | 5,837,903      | 6,909,177      |
| Unrestricted                      | 38,237,634              | 39,004,878     | 20,617,951               | 20,923,570     | 58,855,585     | 59,928,448     |
| Total net assets                  | \$ 253,134,504          | \$ 251,187,038 | \$ 119,491,387           | \$ 122,915,080 | \$ 372,625,891 | \$ 374,102,118 |

An additional portion of the City's net assets (1.6 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (15.8 percent or \$58,865,655) may be used to meet the government's ongoing obligations to citizens and creditors. At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The government's net assets decreased by \$1,476,227 during the current fiscal year as compared to a decrease of \$2,655,154 for the prior year. The current year decrease in net assets reflects the extent by which accrual basis expenses, including depreciation on governmental capital assets and infrastructure, exceed revenues. The change from the prior year results of nearly \$1.2 million reflects an increase in taxes of \$1.5 million caused by an increase in the millage rate and improved corporate and personal withholding income tax revenue, and concerted efforts to control the increases in expenses.

### City of Battle Creek's Changes in Net Assets

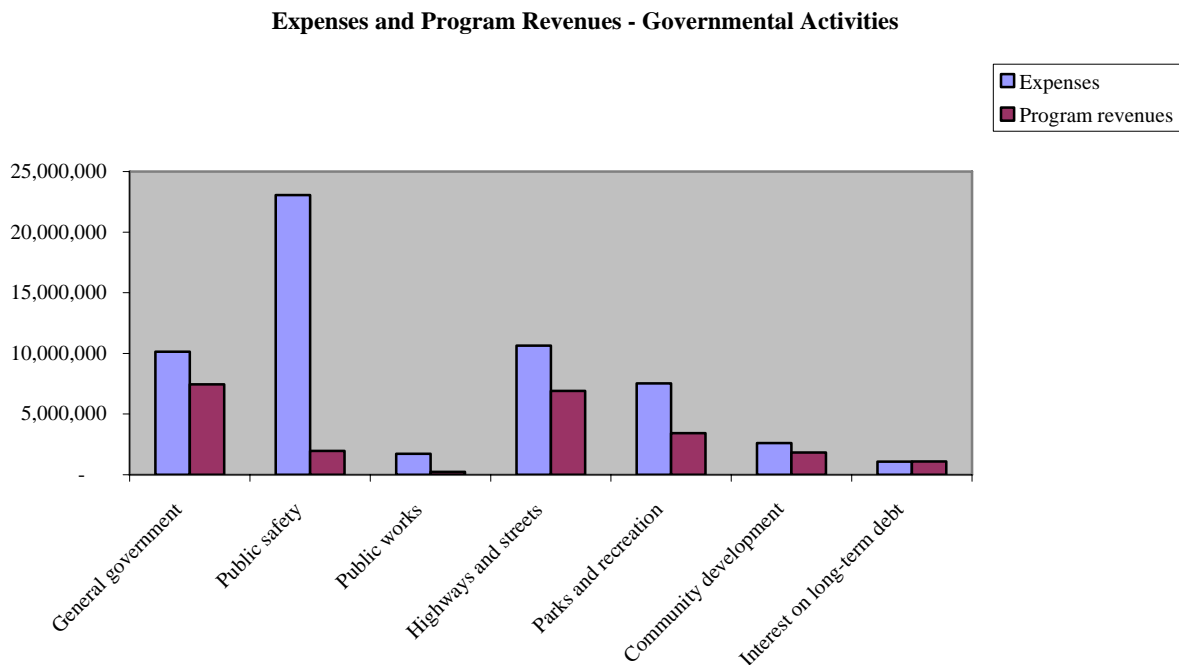
|                                                              | Governmental activities |                | Business-type activities |                | Total          |                |
|--------------------------------------------------------------|-------------------------|----------------|--------------------------|----------------|----------------|----------------|
|                                                              | 2006                    | 2005           | 2006                     | 2005           | 2006           | 2005           |
| Revenue:                                                     |                         |                |                          |                |                |                |
| Program revenue:                                             |                         |                |                          |                |                |                |
| Charges for services                                         | \$ 8,186,147            | \$ 8,309,897   | \$ 22,975,646            | \$ 23,607,975  | \$ 31,161,793  | \$ 31,917,872  |
| Operating grants and contributions                           | 12,363,163              | 10,625,956     | 2,408,957                | 2,567,262      | 14,772,120     | 13,193,218     |
| Capital grants and contributions                             | 2,371,353               | 3,271,450      | 2,696,895                | 4,909,860      | 5,068,248      | 8,181,310      |
| General revenue:                                             |                         |                |                          |                |                |                |
| Property taxes                                               | 14,580,358              | 13,579,207     | -                        | -              | 14,580,358     | 13,579,207     |
| Income taxes                                                 | 14,450,183              | 13,942,683     | -                        | -              | 14,450,183     | 13,942,683     |
| Grants and contributions not restricted to specific programs | 6,221,293               | 6,291,976      | -                        | -              | 6,221,293      | 6,291,976      |
| Other                                                        | 1,241,966               | 1,716,088      | 289,480                  | 379,185        | 1,531,446      | 2,095,273      |
| Total revenue                                                | 59,414,463              | 57,737,257     | 28,370,978               | 31,464,282     | 87,785,441     | 89,201,539     |
| Expenses:                                                    |                         |                |                          |                |                |                |
| General government                                           | 10,138,832              | 8,251,417      | -                        | -              | 10,138,832     | 8,251,417      |
| Public safety                                                | 23,052,841              | 24,912,304     | -                        | -              | 23,052,841     | 24,912,304     |
| Public works                                                 | 1,721,053               | 2,425,660      | -                        | -              | 1,721,053      | 2,425,660      |
| Highways and streets                                         | 10,648,811              | 10,253,704     | -                        | -              | 10,648,811     | 10,253,704     |
| Parks and recreation                                         | 7,528,251               | 10,103,614     | -                        | -              | 7,528,251      | 10,103,614     |
| Community development                                        | 2,602,331               | 2,871,471      | -                        | -              | 2,602,331      | 2,871,471      |
| Interest on long-term debt                                   | 1,079,398               | 1,099,030      | -                        | -              | 1,079,398      | 1,099,030      |
| Sewer                                                        | -                       | -              | 14,598,187               | 14,103,654     | 14,598,187     | 14,103,654     |
| Water                                                        | -                       | -              | 6,897,186                | 7,225,258      | 6,897,186      | 7,225,258      |
| Transit system                                               | -                       | -              | 3,724,879                | 3,887,041      | 3,724,879      | 3,887,041      |
| Solid waste collection                                       | -                       | -              | 2,292,562                | 2,184,244      | 2,292,562      | 2,184,244      |
| Airport                                                      | -                       | -              | 1,991,606                | 1,841,153      | 1,991,606      | 1,841,153      |
| Golf course                                                  | -                       | -              | 1,199,704                | 1,170,632      | 1,199,704      | 1,170,632      |
| Parking                                                      | -                       | -              | 1,021,337                | 1,309,483      | 1,021,337      | 1,309,483      |
| Economic development                                         | -                       | -              | 764,690                  | 218,028        | 764,690        | 218,028        |
| Total expenses                                               | 56,771,517              | 59,917,200     | 32,490,151               | 31,939,493     | 89,261,668     | 91,856,693     |
| Decrease in net assets before transfers                      | 2,642,946               | (2,179,943)    | (4,119,173)              | (475,211)      | (1,476,227)    | (2,655,154)    |
| Transfers                                                    | (695,480)               | (619,138)      | 695,480                  | 619,138        | -              | -              |
| Increase (decrease) in net assets                            | 1,947,466               | (2,799,081)    | (3,423,693)              | 143,927        | (1,476,227)    | (2,655,154)    |
| Net assets - beginning of year                               | 251,187,038             | 253,986,119    | 122,915,080              | 122,771,153    | 374,102,118    | 376,757,272    |
| Net assets - end of year                                     | \$ 253,134,504          | \$ 251,187,038 | \$ 119,491,387           | \$ 122,915,080 | \$ 372,625,891 | \$ 374,102,118 |

**Governmental activities.** Governmental activities increased the City's net assets by \$1,947,466 (as compared to a prior year decrease of \$2,799,081), offsetting the overall decrease of \$1,476,227. Key elements of this increase and the change from the prior year are as follows:

- Income tax revenues increase by \$500,000 as a result of improved local economy
- Property tax revenues increase by \$1 million as a result of an increase in the millage rate of .921 mills and inflationary increases in property values.
- Increase in operating grants and contributions
- Inflationary increases in property tax revenues, charges for services, and operating grants.

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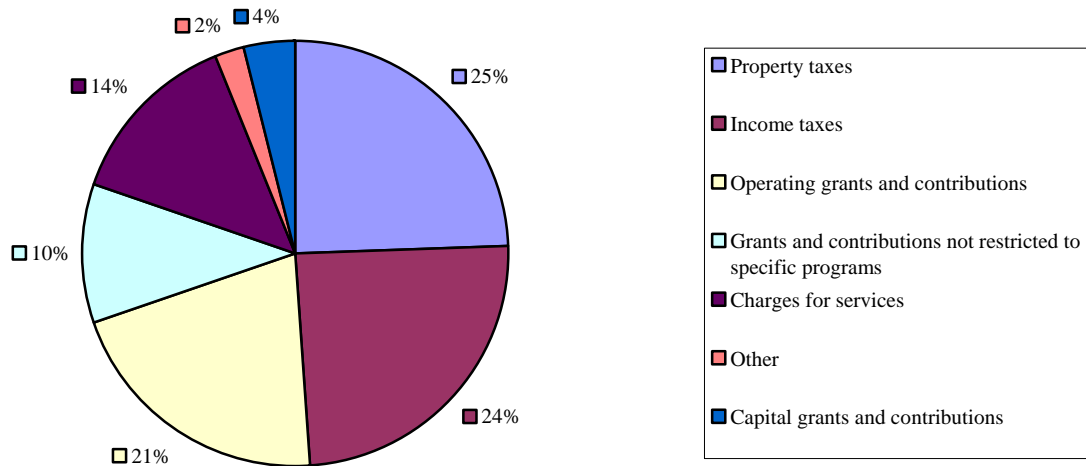
### Expenses and Program Revenues - Governmental Activities



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## Revenues by Source - Governmental Activities

Revenues by Source - Governmental Activities



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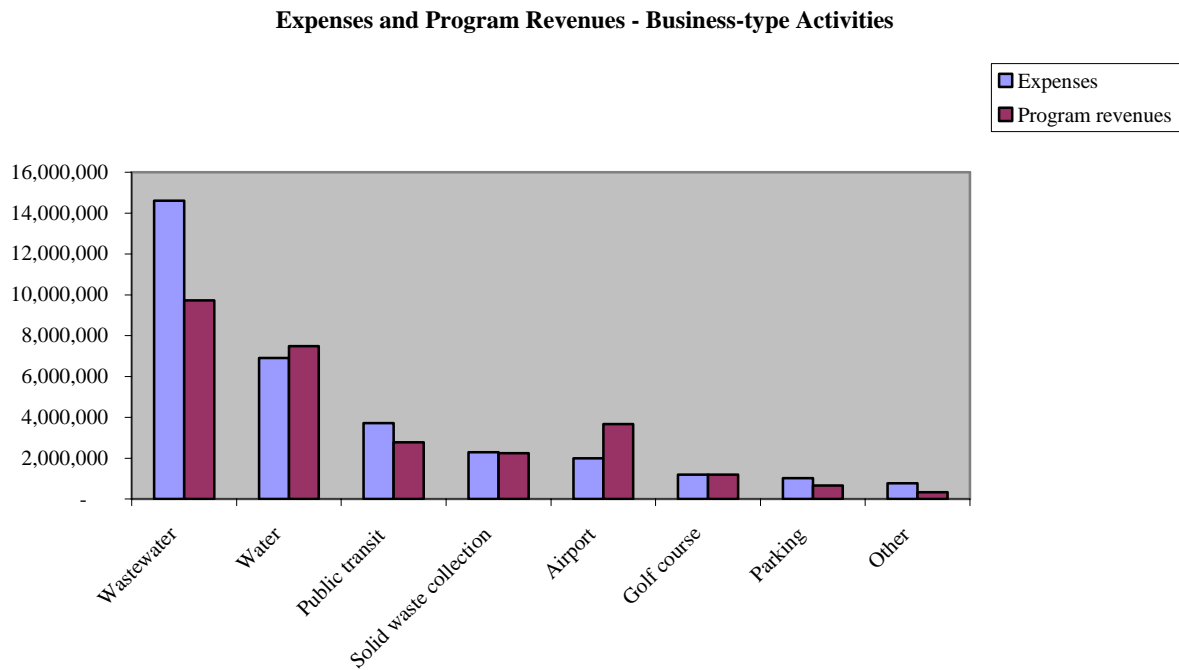
**Business-type activities.** Business-type activities decreased the City's net assets by \$3,423,693 as compared to an increase of \$143,927 the prior year. Key elements for this change include:

- Decrease in capital grants and contributions of \$2.2 million with completion of state and federally funded air traffic control tower project.
- Decrease in various charges for services in the Water and Wastewater System.
- Inflationary increases in expenses.



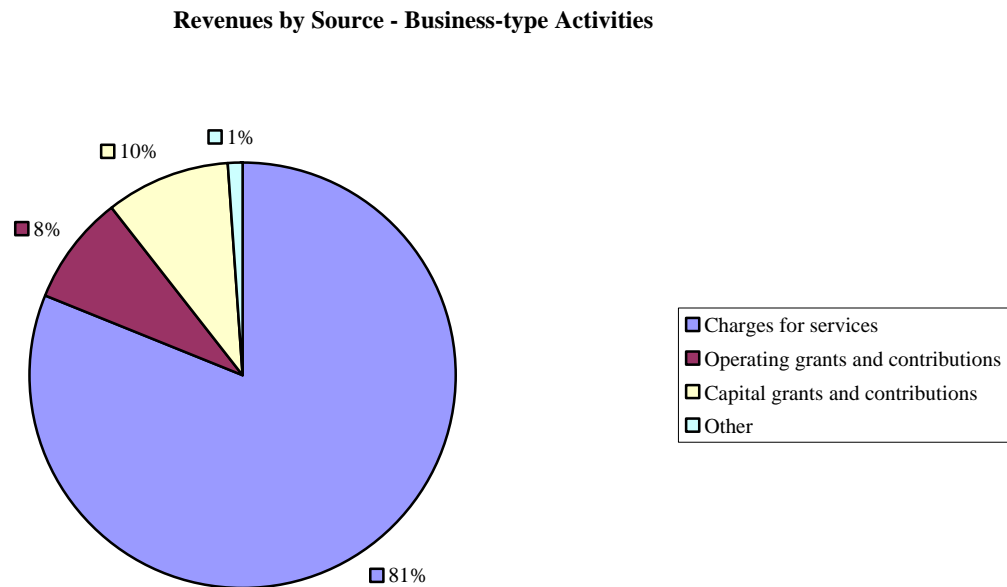
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## Expenses and Program Revenues - Business-type Activities



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## Revenues by Source - Business-type Activities



## Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$22,150,322, an increase of \$16,945 in comparison with the prior year. Approximately 89% of this total amount (\$19,721,817) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed:

- to generate income for the support and maintenance of the youth center and Kellogg Arena (\$2,123,533); and
- for inventories, prepaid expenditures and encumbrances (\$304,972).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved undesignated fund balance of the general fund was \$6,687,834, while total fund balance was \$9,769,976. As a measure of the general fund's liquidity, it may be useful to compare unreserved undesignated fund balance to total general fund revenues. Unreserved undesignated fund balance represents 15.2 percent of total general fund revenues and other financing sources.

The fund balance of the City's general fund decreased by \$1,423,588 during the current fiscal year. This was a planned use of fund balance, but significantly less than the final budgeted decrease in fund balance of \$2,084,367.

The community development fund has no fund balance, which is the same as the previous year, since this is a grant-driven fund. Original budget estimates anticipated a greater level of activity than actually occurred; however, community development grant funds may be carried over to subsequent years.

**Proprietary funds.** The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

Unrestricted net assets of the water and wastewater system fund at the end of the year amounted to \$11,626,425. The fund had a decrease in net assets for the year of \$4,809,840. Factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

The W.K Kellogg Airport had total net assets at the end of the year of \$8,747,284 with unrestricted net assets of \$511,130. For the year, the Airport had an increase in net assets of \$1,613,864 primarily because of governmental subsidies and capital contributions for the construction of a new tower.

## General Fund Budgetary Highlights

Differences between the original and final amended budgets for expenditures were relatively minor. Changes between original and final budget balances result from the carryover of certain budget appropriations under the City's budgetary policies.

For the year, general fund budgetary estimates for revenues, expenditures and other financing sources and uses exceeded actual, resulting in a net decrease in fund balance that was \$660,779 less than anticipated in the final amended budget.

## Capital Asset and Debt Administration

**Capital assets.** The City's investment in capital assets for its governmental and business type activities as of June 30, 2006, amounted to \$359,247,624 (net of accumulated depreciation). This investment in capital assets includes land, improvements, buildings, system, vehicles and equipment, park facilities, roads, highways, and bridges. Net capital assets for governmental activities increased 1.6%, and for business-type activities decreased by 3.5%. Overall, total net capital assets for the City decreased 0.2%.

Major capital asset events during the current fiscal year included the following:

- Water and wastewater system improvements totaling \$1.4 million in the current year.
- Airport improvements and additions totaling \$1.9 million.
- Current year infrastructure additions of over \$6.0 million.

### City of Battle Creek's Capital Assets (net of depreciation)

|                            | Governmental activities |                       | Business-type activities |                       | Total                 |                       |
|----------------------------|-------------------------|-----------------------|--------------------------|-----------------------|-----------------------|-----------------------|
|                            | 2006                    | 2005                  | 2006                     | 2005                  | 2006                  | 2005                  |
| Land and land improvements | \$ 5,360,505            | \$ 4,787,128          | \$ 6,906,843             | \$ 7,074,412          | \$ 12,267,348         | \$ 11,861,540         |
| Buildings                  | 33,230,597              | 33,433,540            | 26,686,223               | 27,619,591            | 59,916,820            | 61,053,131            |
| Vehicles                   | 2,877,363               | 2,756,465             | 728,086                  | 944,406               | 3,605,449             | 3,700,871             |
| Equipment                  | 4,951,433               | 2,632,659             | 5,604,674                | 5,843,016             | 10,556,107            | 8,475,675             |
| Systems                    | -                       | -                     | 85,317,565               | 88,265,301            | 85,317,565            | 88,265,301            |
| Infrastructure             | 187,584,335             | 186,609,083           | -                        | -                     | 187,584,335           | 186,609,083           |
| Total                      | <u>\$ 234,004,233</u>   | <u>\$ 230,218,875</u> | <u>\$ 125,243,391</u>    | <u>\$ 129,746,726</u> | <u>\$ 359,247,624</u> | <u>\$ 359,965,601</u> |

Additional information on the City's capital assets can be found in Note 3-D. on pages 52-53 of this report.

**Long-term debt.** At the end of the current fiscal year, the City had total bonded debt outstanding of \$50,809,000. Of this amount, \$28,924,000 is comprised of debt backed by the full faith and credit of the government. The remainder of the City's bonded debt represents bonds secured solely by specified revenue sources.

**City of Battle Creek's Outstanding Debt**  
General Obligation and Revenue Bonds

|                          | <b>Governmental activities</b> |                      | <b>Business-type activities</b> |                      | <b>Total</b>         |                      |
|--------------------------|--------------------------------|----------------------|---------------------------------|----------------------|----------------------|----------------------|
|                          | <b>2006</b>                    | <b>2005</b>          | <b>2006</b>                     | <b>2005</b>          | <b>2006</b>          | <b>2005</b>          |
| General obligation bonds | \$ 24,729,000                  | \$ 22,375,000        | \$ 4,195,000                    | \$ 4,515,000         | \$ 28,924,000        | \$ 26,890,000        |
| Revenue bonds            | -                              | -                    | 21,885,000                      | 23,085,000           | 21,885,000           | 23,085,000           |
| Special assessment bonds | -                              | 25,000               | -                               | -                    | -                    | 25,000               |
| <b>Total</b>             | <b>\$ 24,729,000</b>           | <b>\$ 22,400,000</b> | <b>\$ 26,080,000</b>            | <b>\$ 27,600,000</b> | <b>\$ 50,809,000</b> | <b>\$ 50,000,000</b> |

The City's total bonded debt increased by \$809,000 (1.6 percent) during the current fiscal year, with \$3,819,000 of new debt issued during the year.

The following chart depicts the City's credit rating for the various outstanding debt and the different rating agencies:

|                                        | <b>Moody's</b> | <b>S&amp;P</b> | <b>Fitch</b> |
|----------------------------------------|----------------|----------------|--------------|
| Water and wastewater revenue bonds     | A3             | A              | A+           |
| General obligation limited tax bonds   | A1             | A+             | AA-          |
| General obligation unlimited tax bonds | A1             | A+             | nr           |

**nr – not rated**

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total state equalized valuation. The current debt limitation for the City is \$174,472,102 which is significantly in excess of the City's outstanding general obligation debt.

Additional information on the City's long-term debt can be found in Note 3-G. on pages 55-60 of this report.

## **Economic Factors and Next Year's Budgets and Rates**

With the aid of a new long-term financial model, the following factors were considered in preparing the City's budget for the 2006-07 fiscal year:

- Developed budget within the context of the forecasted revenues and expenditures.
- Continued marginal growth in the City's income tax due to reduction in personal exemptions and job growth.
- No growth in state shared revenue.
- Limited growth in total controlled revenues.
- Inflationary trends in the region are comparable to national indices.

During the current fiscal year, unreserved undesignated fund balance in the general fund decreased by \$621,543 to \$6,687,834. The City has appropriated \$703,000 of general fund unreserved fund balance for spending in the 2006-07 fiscal year budget.

## **Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Finance Director, P.O. Box 1717, Battle Creek, Michigan 49016-1717.

## BASIC FINANCIAL STATEMENTS

## GOVERNMENT-WIDE FINANCIAL STATEMENTS

**CITY OF BATTLE CREEK, MICHIGAN**  
**Statement of Net Assets**  
**June 30, 2006**

|                                                 | <b>Primary Government</b>          |                                     |                       |                            |
|-------------------------------------------------|------------------------------------|-------------------------------------|-----------------------|----------------------------|
|                                                 | <b>Governmental<br/>Activities</b> | <b>Business-type<br/>Activities</b> | <b>Total</b>          | <b>Component<br/>Units</b> |
| <b>Assets</b>                                   |                                    |                                     |                       |                            |
| Pooled cash and investments                     | \$ 31,510,731                      | \$ 14,286,606                       | \$ 45,797,337         | \$ 12,781,770              |
| Receivables                                     | 18,946,124                         | 5,577,778                           | 24,523,902            | 5,812,229                  |
| Receivables, long term portion                  | 8,029,693                          | 3,533,313                           | 11,563,006            | -                          |
| Internal balances                               | (491,096)                          | 491,096                             | -                     | -                          |
| Inventories, prepaid items and other assets     | 728,227                            | 1,510,254                           | 2,238,481             | 462,575                    |
| Capital assets not being depreciated            | 371,094                            | 3,703,302                           | 4,074,396             | 11,679,397                 |
| Capital assets being depreciated, net           | 233,633,139                        | 121,540,089                         | 355,173,228           | 591,156                    |
| <b>Total assets</b>                             | <b>292,727,912</b>                 | <b>150,642,438</b>                  | <b>443,370,350</b>    | <b>31,327,127</b>          |
| <b>Liabilities</b>                              |                                    |                                     |                       |                            |
| Accounts payable and accrued expenses           | 9,307,295                          | 4,280,792                           | 13,588,087            | 495,108                    |
| Accrued interest payable                        | 292,493                            | 402,834                             | 695,327               | 109,044                    |
| Unearned revenue                                | 594,098                            | 97,470                              | 691,568               | -                          |
| Long-term liabilities:                          |                                    |                                     |                       |                            |
| Due within one year                             | 2,387,242                          | 1,686,404                           | 4,073,646             | 1,776,728                  |
| Due in more than one year                       | 27,012,280                         | 24,683,551                          | 51,695,831            | 62,186,567                 |
| <b>Total liabilities</b>                        | <b>39,593,408</b>                  | <b>31,151,051</b>                   | <b>70,744,459</b>     | <b>64,567,447</b>          |
| <b>Net assets</b>                               |                                    |                                     |                       |                            |
| Invested in capital assets, net of related debt | 209,058,967                        | 98,873,436                          | 307,932,403           | 8,000,146                  |
| Restricted for:                                 |                                    |                                     |                       |                            |
| Debt service                                    | 1,052,660                          | -                                   | 1,052,660             | 3,833,126                  |
| Capital projects                                | 164,229                            | -                                   | 164,229               | 10,646,239                 |
| Endowment - nonexpendable                       | 2,123,533                          | -                                   | 2,123,533             | -                          |
| Endowment - expendable                          | 1,370,131                          | -                                   | 1,370,131             | -                          |
| Other purposes                                  | 1,127,350                          | -                                   | 1,127,350             | 1,462,046                  |
| Unrestricted (deficit)                          | 38,237,634                         | 20,617,951                          | 58,855,585            | (57,181,877)               |
| <b>Total net assets (deficit)</b>               | <b>\$ 253,134,504</b>              | <b>\$ 119,491,387</b>               | <b>\$ 372,625,891</b> | <b>\$ (33,240,320)</b>     |

The accompanying notes are an integral part of these financial statements.



**CITY OF BATTLE CREEK, MICHIGAN**  
**Statement of Activities**  
**For the Year Ended June 30, 2006**

| <b><u>Functions / Programs</u></b> | <b><u>Expenses</u></b> | <b><u>Program Revenues</u></b>         |                                                          |                                                        | <b><u>Net (Expense)<br/>Revenue</u></b> |
|------------------------------------|------------------------|----------------------------------------|----------------------------------------------------------|--------------------------------------------------------|-----------------------------------------|
|                                    |                        | <b><u>Charges<br/>for Services</u></b> | <b><u>Operating<br/>Grants and<br/>Contributions</u></b> | <b><u>Capital<br/>Grants and<br/>Contributions</u></b> |                                         |
| <b>Primary government</b>          |                        |                                        |                                                          |                                                        |                                         |
| Governmental activities:           |                        |                                        |                                                          |                                                        |                                         |
| General government                 | \$ 10,138,832          | \$ 2,596,709                           | \$ 4,859,999                                             | \$ -                                                   | \$ (2,682,124)                          |
| Public safety                      | 23,052,841             | 1,927,079                              | 32,673                                                   | -                                                      | (21,093,089)                            |
| Public works                       | 1,721,053              | 152,295                                | 84,499                                                   | -                                                      | (1,484,259)                             |
| Highways and streets               | 10,648,811             | 463                                    | 5,512,491                                                | 1,396,287                                              | (3,739,570)                             |
| Parks and recreation               | 7,528,251              | 3,428,780                              | -                                                        | -                                                      | (4,099,471)                             |
| Community development              | 2,602,331              | 80,821                                 | 1,751,477                                                | -                                                      | (770,033)                               |
| Interest on long-term debt         | 1,079,398              | -                                      | 122,024                                                  | 975,066                                                | 17,692                                  |
| Total governmental activities      | 56,771,517             | 8,186,147                              | 12,363,163                                               | 2,371,353                                              | (33,850,854)                            |
| Business-type activities:          |                        |                                        |                                                          |                                                        |                                         |
| Wastewater                         | 14,598,187             | 9,726,868                              | -                                                        | -                                                      | (4,871,319)                             |
| Water                              | 6,897,186              | 7,337,571                              | 26,777                                                   | 114,459                                                | 581,621                                 |
| Public transit                     | 3,724,879              | 398,011                                | 2,382,180                                                | -                                                      | (944,688)                               |
| Solid waste collection             | 2,292,562              | 2,250,880                              | -                                                        | -                                                      | (41,682)                                |
| Airport                            | 1,991,606              | 1,083,875                              | -                                                        | 2,582,436                                              | 1,674,705                               |
| Golf course                        | 1,199,704              | 1,187,918                              | -                                                        | -                                                      | (11,786)                                |
| Parking                            | 1,021,337              | 659,630                                | -                                                        | -                                                      | (361,707)                               |
| Economic development               | 764,690                | 330,893                                | -                                                        | -                                                      | (433,797)                               |
| Total business-type activities     | 32,490,151             | 22,975,646                             | 2,408,957                                                | 2,696,895                                              | (4,408,653)                             |
| Total primary government           | \$ 89,261,668          | \$ 31,161,793                          | \$ 14,772,120                                            | \$ 5,068,248                                           | \$ (38,259,507)                         |
| <b>Component units</b>             |                        |                                        |                                                          |                                                        |                                         |
| Community development              | \$ 15,210,347          | \$ 65,679                              | \$ -                                                     | \$ -                                                   | \$ (15,144,668)                         |

Continued...

**CITY OF BATTLE CREEK, MICHIGAN**  
**Statement of Activities (Concluded)**  
**For the Year Ended June 30, 2006**

|                                                                 | <b>Primary Government</b>          |                                     |                       | <b>Component<br/>Units</b> |
|-----------------------------------------------------------------|------------------------------------|-------------------------------------|-----------------------|----------------------------|
|                                                                 | <b>Governmental<br/>Activities</b> | <b>Business-type<br/>Activities</b> | <b>Total</b>          |                            |
| <b>Changes in net assets</b>                                    |                                    |                                     |                       |                            |
| Net (expense) revenue                                           | \$ (33,850,854)                    | \$ (4,408,653)                      | \$ (38,259,507)       | \$ (15,144,668)            |
| General revenues:                                               |                                    |                                     |                       |                            |
| Property taxes                                                  | 14,580,358                         | -                                   | 14,580,358            | 15,506,790                 |
| Income taxes                                                    | 14,450,183                         | -                                   | 14,450,183            | -                          |
| Grants and contributions not<br>restricted to specific programs | 6,221,293                          | -                                   | 6,221,293             | -                          |
| Unrestricted investment earnings                                | 1,241,966                          | 289,480                             | 1,531,446             | 344,747                    |
| Transfers - internal activities                                 | (695,480)                          | 695,480                             | -                     | -                          |
| Total general revenues and<br>transfers                         | 35,798,320                         | 984,960                             | 36,783,280            | 15,851,537                 |
| Change in net assets                                            | 1,947,466                          | (3,423,693)                         | (1,476,227)           | 706,869                    |
| Net assets (deficit), beginning of year, as restated            | 251,187,038                        | 122,915,080                         | 374,102,118           | (33,947,189)               |
| <b>Net assets (deficit), end of year</b>                        | <u>\$ 253,134,504</u>              | <u>\$ 119,491,387</u>               | <u>\$ 372,625,891</u> | <u>\$ (33,240,320)</u>     |

The accompanying notes are an integral part of these financial statements.

## FUND FINANCIAL STATEMENTS

# CITY OF BATTLE CREEK, MICHIGAN

## Balance Sheet Governmental Funds June 30, 2006

|                                                                                 | General                     | Community<br>Development   | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---------------------------------------------------------------------------------|-----------------------------|----------------------------|--------------------------------|--------------------------------|
| <b><u>ASSETS</u></b>                                                            |                             |                            |                                |                                |
| <b>Assets</b>                                                                   |                             |                            |                                |                                |
| Pooled cash and investments                                                     | \$ 5,319,601                | \$ -                       | \$ 11,659,329                  | \$ 16,978,930                  |
| Receivables:                                                                    |                             |                            |                                |                                |
| Interest                                                                        | 326,752                     | -                          | 102,861                        | 429,613                        |
| Accounts                                                                        | 5,567,731                   | 20,882                     | 982,342                        | 6,570,955                      |
| Special assessments                                                             | -                           | -                          | 247,191                        | 247,191                        |
| Grants                                                                          | 35,142                      | 163,288                    | 493,652                        | 692,082                        |
| Loans                                                                           | 7,523,344                   | 2,866,733                  | -                              | 10,390,077                     |
| Inventories                                                                     | 13,483                      | -                          | 14,653                         | 28,136                         |
| Prepaid items                                                                   | 23,901                      | -                          | 2,724                          | 26,625                         |
| Interfund receivable                                                            | 3,216,105                   | -                          | -                              | 3,216,105                      |
| Other assets                                                                    | -                           | -                          | -                              | -                              |
| <b><u>TOTAL ASSETS</u></b>                                                      | <b><u>\$ 22,026,059</u></b> | <b><u>\$ 3,050,903</u></b> | <b><u>\$ 13,502,752</u></b>    | <b><u>\$ 38,579,714</u></b>    |
| <b><u>LIABILITIES AND FUND BALANCES</u></b>                                     |                             |                            |                                |                                |
| <b>Liabilities</b>                                                              |                             |                            |                                |                                |
| Accounts payable                                                                | \$ 2,664,539                | \$ -                       | \$ 125,187                     | \$ 2,789,726                   |
| Accrued payroll                                                                 | 1,767,092                   | -                          | -                              | 1,767,092                      |
| Retentions, deposits and other liabilities                                      | 49,253                      | 2,585                      | 271,933                        | 323,771                        |
| Interfund payable                                                               | -                           | 181,585                    | 182,306                        | 363,891                        |
| Deferred revenue                                                                | 7,775,199                   | 2,866,733                  | 542,980                        | 11,184,912                     |
| Total liabilities                                                               | <u>12,256,083</u>           | <u>3,050,903</u>           | <u>1,122,406</u>               | <u>16,429,392</u>              |
| <b>Fund balances</b>                                                            |                             |                            |                                |                                |
| Reserved for:                                                                   |                             |                            |                                |                                |
| Inventories                                                                     | 13,483                      | -                          | 14,653                         | 28,136                         |
| Prepaid items                                                                   | 23,901                      | -                          | 2,724                          | 26,625                         |
| Encumbrances                                                                    | 158,412                     | -                          | 91,799                         | 250,211                        |
| Endowment                                                                       | -                           | -                          | 2,123,533                      | 2,123,533                      |
| Unreserved:                                                                     |                             |                            |                                |                                |
| Designated for:                                                                 |                             |                            |                                |                                |
| Capital outlay and projects                                                     | 1,255,815                   | -                          | -                              | 1,255,815                      |
| Future departmental appropriations                                              | 927,531                     | -                          | -                              | 927,531                        |
| Future departmental appropriations, reported in nonmajor capital projects funds | -                           | -                          | 671,617                        | 671,617                        |
| Subsequent year expenditures                                                    | 703,000                     | -                          | -                              | 703,000                        |
| Subsequent year expenditures, reported in nonmajor special revenue funds        | -                           | -                          | 816,554                        | 816,554                        |
| Undesignated                                                                    | 6,687,834                   | -                          | -                              | 6,687,834                      |
| Undesignated, reported in nonmajor:                                             |                             |                            |                                |                                |
| Special revenue funds                                                           | -                           | -                          | 1,898,168                      | 1,898,168                      |
| Debt service funds                                                              | -                           | -                          | 1,052,660                      | 1,052,660                      |
| Capital projects funds                                                          | -                           | -                          | 4,338,507                      | 4,338,507                      |
| Permanent funds                                                                 | -                           | -                          | 1,370,131                      | 1,370,131                      |
| Total fund balances                                                             | <u>9,769,976</u>            | <u>-</u>                   | <u>12,380,346</u>              | <u>22,150,322</u>              |
| <b><u>TOTAL LIABILITIES AND FUND BALANCES</u></b>                               | <b><u>\$ 22,026,059</u></b> | <b><u>\$ 3,050,903</u></b> | <b><u>\$ 13,502,752</u></b>    | <b><u>\$ 38,579,714</u></b>    |

The accompanying notes are an integral part of these financial statements.

**CITY OF BATTLE CREEK, MICHIGAN**  
**Reconciliation of Fund Balances on the Balance Sheet**  
**for Governmental Funds to Net Assets of**  
**Governmental Activities on the Statement of Net Assets**  
**June 30, 2006**

|                                                 |               |
|-------------------------------------------------|---------------|
| <b>Fund balances - total governmental funds</b> | \$ 22,150,322 |
|-------------------------------------------------|---------------|

Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

|                                   |              |
|-----------------------------------|--------------|
| Add - capital assets              | 325,209,457  |
| Deduct - accumulated depreciation | (93,717,147) |

Internal service funds are used by management to charge the costs of certain equipment usage to individual governmental funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.

|                                                                                                 |            |
|-------------------------------------------------------------------------------------------------|------------|
| Add - net assets of governmental internal service funds                                         | 10,528,014 |
| Deduct - portion of internal service funds net operating loss attributed to business-type funds | (491,096)  |

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current expenditures. Those assets (i.e., receivables) are offset by deferred revenues in the governmental funds and, therefore, not included in fund balance.

|                                                              |           |
|--------------------------------------------------------------|-----------|
| Add - deferred special assessments                           | 220,737   |
| Add - loans receivable related to the sale of capital assets | 7,484,344 |
| Add - other loans receivable                                 | 2,885,733 |

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

|                                                               |              |
|---------------------------------------------------------------|--------------|
| Deduct - bonds, installment contracts and loans payable       | (26,044,024) |
| Add - unamortized bond issuance costs                         | 198,758      |
| Add - receivables from other entities for their share of debt | 8,556,155    |
| Deduct - accrued interest on bonds, loans and leases payable  | (292,493)    |
| Deduct - compensated absences                                 | (3,554,256)  |

|                                              |                       |
|----------------------------------------------|-----------------------|
| <b>Net assets of governmental activities</b> | <b>\$ 253,134,504</b> |
|----------------------------------------------|-----------------------|

The accompanying notes are an integral part of these financial statements.

**CITY OF BATTLE CREEK, MICHIGAN**  
**Statement of Revenues, Expenditures**  
**and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2006**

|                                       | <u>General</u>             | <u>Community<br/>Development</u> | <u>Other<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|---------------------------------------|----------------------------|----------------------------------|-----------------------------------------|-----------------------------------------|
| <b>Revenue</b>                        |                            |                                  |                                         |                                         |
| Taxes                                 | \$ 29,030,541              | \$ -                             | \$ 6,515                                | \$ 29,037,056                           |
| Licenses and permits                  | 1,084,527                  | -                                | -                                       | 1,084,527                               |
| Intergovernmental                     | 7,804,482                  | 1,474,814                        | 8,430,302                               | 17,709,598                              |
| Charges for services                  | 2,518,560                  | -                                | 2,323,903                               | 4,842,463                               |
| Fines and forfeitures                 | 250,683                    | -                                | -                                       | 250,683                                 |
| Investment income                     | 1,047,649                  | 905                              | 128,791                                 | 1,177,345                               |
| Other                                 | 1,700,687                  | 61,288                           | 2,338,032                               | 4,100,007                               |
| Total revenue                         | <u>43,437,129</u>          | <u>1,537,007</u>                 | <u>13,227,543</u>                       | <u>58,201,679</u>                       |
| <b>Expenditures</b>                   |                            |                                  |                                         |                                         |
| Current expenditures:                 |                            |                                  |                                         |                                         |
| General government                    | 6,835,195                  | -                                | 2,006,611                               | 8,841,806                               |
| Public safety                         | 24,207,356                 | -                                | 1,344,299                               | 25,551,655                              |
| Public works                          | 1,480,494                  | -                                | -                                       | 1,480,494                               |
| Highway and streets                   | -                          | -                                | 10,760,834                              | 10,760,834                              |
| Parks and recreation                  | 4,155,768                  | -                                | 3,347,442                               | 7,503,210                               |
| Community development                 | -                          | 1,534,757                        | 246,658                                 | 1,781,415                               |
| Unallocated                           | 2,082,499                  | -                                | 249,089                                 | 2,331,588                               |
| Debt service:                         |                            |                                  |                                         |                                         |
| Principal retirement                  | -                          | -                                | 1,630,000                               | 1,630,000                               |
| Interest                              | -                          | -                                | 1,091,107                               | 1,091,107                               |
| Capital outlay                        | -                          | -                                | 1,199,315                               | 1,199,315                               |
| Total expenditures                    | <u>38,761,312</u>          | <u>1,534,757</u>                 | <u>21,875,355</u>                       | <u>62,171,424</u>                       |
| Revenue over (under) expenditures     | <u>4,675,817</u>           | <u>2,250</u>                     | <u>(8,647,812)</u>                      | <u>(3,969,745)</u>                      |
| <b>Other financing sources (uses)</b> |                            |                                  |                                         |                                         |
| Bonds issued                          | -                          | -                                | 3,819,000                               | 3,819,000                               |
| Transfers in                          | 46,244                     | -                                | 8,849,846                               | 8,896,090                               |
| Transfers out                         | (6,776,903)                | (2,250)                          | (2,580,501)                             | (9,359,654)                             |
| Proceeds from sales of capital assets | 631,254                    | -                                | -                                       | 631,254                                 |
| Total other financing sources (uses)  | <u>(6,099,405)</u>         | <u>(2,250)</u>                   | <u>10,088,345</u>                       | <u>3,986,690</u>                        |
| Net change in fund balances           | (1,423,588)                | -                                | 1,440,533                               | 16,945                                  |
| Fund balances, beginning of year      | <u>11,193,564</u>          | <u>-</u>                         | <u>10,939,813</u>                       | <u>22,133,377</u>                       |
| <b>Fund balances, end of year</b>     | <u><u>\$ 9,769,976</u></u> | <u><u>\$ -</u></u>               | <u><u>\$ 12,380,346</u></u>             | <u><u>\$ 22,150,322</u></u>             |

The accompanying notes are an integral part of these financial statements.

**CITY OF BATTLE CREEK, MICHIGAN**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the Year Ended June 30, 2006**

**Net change in fund balances - total governmental funds** **\$ 16,945**

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

|                               |             |
|-------------------------------|-------------|
| Add - capital outlay          | 10,587,307  |
| Deduct - depreciation expense | (6,778,040) |

Revenues in the statement of activities that do not provide current resources are not reported as revenues in the funds, but rather are deferred to subsequent fiscal years.

|                                                                              |           |
|------------------------------------------------------------------------------|-----------|
| Add - increase in special assessments                                        | 198,444   |
| Deduct - collections on land contracts related to the sale of capital assets | (631,254) |
| Add - deferred revenues related to loans made during the current year        | 66,500    |

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

|                                                                                |             |
|--------------------------------------------------------------------------------|-------------|
| Deduct - proceeds of long-term debt issuance                                   | (3,819,000) |
| Add - principal payments on long-term liabilities                              | 1,630,000   |
| Add - amortization of premiums on bonds                                        | 5,003       |
| Deduct - amount received from other entities for their share of debt principal | (475,086)   |

Internal service funds are used by management to charge the costs of certain equipment usage to individual governmental funds. The net revenue (expense) attributable to those funds is reported with governmental activities.

|                                                                                   |           |
|-----------------------------------------------------------------------------------|-----------|
| Add - net operating income from governmental activities in internal service funds | 1,547,148 |
| Add - interest revenue from governmental internal service funds                   | 113,409   |
| Add - transfers received in governmental internal service funds                   | 556,673   |
| Deduct - transfers made from governmental internal services funds                 | (788,589) |

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

|                                                           |           |
|-----------------------------------------------------------|-----------|
| Add - decrease in accrued interest payable on bonds       | 6,707     |
| Deduct - increase in the accrual for compensated absences | (273,324) |
| Deduct - amortization of bond issuance costs              | (15,377)  |

**Change in net assets of governmental activities** **\$ 1,947,466**

The accompanying notes are an integral part of these financial statements.

**CITY OF BATTLE CREEK, MICHIGAN**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balance - Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2006**

|                                   | <b>Budget</b>     |                   |                   | <b>Actual<br/>Over (Under)<br/>Final Budget</b> |
|-----------------------------------|-------------------|-------------------|-------------------|-------------------------------------------------|
|                                   | <b>Original</b>   | <b>Final</b>      | <b>Actual</b>     |                                                 |
| <b>Revenue</b>                    |                   |                   |                   |                                                 |
| <b>Taxes</b>                      |                   |                   |                   |                                                 |
| City income                       | \$ 13,600,000     | \$ 13,600,000     | \$ 14,450,183     | \$ 850,183                                      |
| Real estate                       | 11,589,938        | 11,589,938        | 11,782,031        | 192,093                                         |
| Personal property                 | 2,306,653         | 2,306,653         | 1,800,061         | (506,592)                                       |
| Administration fees               | 875,243           | 875,243           | 921,447           | 46,204                                          |
| Other                             | 45,200            | 45,200            | 76,819            | 31,619                                          |
| <b>Total taxes</b>                | <b>28,417,034</b> | <b>28,417,034</b> | <b>29,030,541</b> | <b>613,507</b>                                  |
| <b>Licenses and permits</b>       | <b>1,048,150</b>  | <b>1,048,250</b>  | <b>1,084,527</b>  | <b>36,277</b>                                   |
| <b>Intergovernmental</b>          |                   |                   |                   |                                                 |
| State-Shared - Statutory          | 3,475,668         | 2,646,332         | 2,545,973         | (100,359)                                       |
| State-Shared - Constitutional     | 2,646,332         | 3,475,668         | 3,639,173         | 163,505                                         |
| Other                             | 1,461,433         | 1,531,183         | 1,619,336         | 88,153                                          |
| <b>Total intergovernmental</b>    | <b>7,583,433</b>  | <b>7,653,183</b>  | <b>7,804,482</b>  | <b>151,299</b>                                  |
| <b>Charges for services</b>       |                   |                   |                   |                                                 |
| Parks and recreation              | 1,759,777         | 1,759,777         | 1,509,099         | (250,678)                                       |
| Police services                   | 712,303           | 773,839           | 777,891           | 4,052                                           |
| Emergency dispatch                | 302,043           | 302,043           | 231,570           | (70,473)                                        |
| <b>Total charges for services</b> | <b>2,774,123</b>  | <b>2,835,659</b>  | <b>2,518,560</b>  | <b>(317,099)</b>                                |
| <b>Fines and forfeitures</b>      | <b>322,540</b>    | <b>322,540</b>    | <b>250,683</b>    | <b>(71,857)</b>                                 |
| <b>Investment income</b>          | <b>1,723,690</b>  | <b>1,723,690</b>  | <b>1,047,649</b>  | <b>(676,041)</b>                                |
| <b>Other</b>                      |                   |                   |                   |                                                 |
| Rent and leases                   | 209,209           | 209,209           | 217,692           | 8,483                                           |
| Miscellaneous and other           | 639,070           | 725,076           | 507,803           | (217,273)                                       |
| Administrative reimbursements     | 955,908           | 955,908           | 975,192           | 19,284                                          |
| <b>Total other revenue</b>        | <b>1,804,187</b>  | <b>1,890,193</b>  | <b>1,700,687</b>  | <b>(189,506)</b>                                |
| <b>Total revenue</b>              | <b>43,673,157</b> | <b>43,890,549</b> | <b>43,437,129</b> | <b>(453,420)</b>                                |

Continued...



**CITY OF BATTLE CREEK, MICHIGAN**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balance - Budget and Actual (Continued)**  
**General Fund**  
**For the Year Ended June 30, 2006**

|                              | <b>Budget</b>   |              | <b>Actual</b> | <b>Actual<br/>Over (Under)<br/>Final Budget</b> |
|------------------------------|-----------------|--------------|---------------|-------------------------------------------------|
|                              | <b>Original</b> | <b>Final</b> |               |                                                 |
| <b>Expenditures</b>          |                 |              |               |                                                 |
| <b>General government</b>    |                 |              |               |                                                 |
| Administration:              |                 |              |               |                                                 |
| Mayor and city commission    | \$ 93,449       | \$ 123,449   | \$ 99,806     | \$ (23,643)                                     |
| City clerk                   | 218,650         | 281,530      | 286,896       | 5,366                                           |
| City manager                 | 712,463         | 712,463      | 711,093       | (1,370)                                         |
| City hall                    | 334,595         | 384,111      | 296,958       | (87,153)                                        |
| Neighborhood partnership     | 147,184         | 147,184      | 154,250       | 7,066                                           |
| Neighborhood code compliance | 132,268         | 132,268      | 100,031       | (32,237)                                        |
| Employee relations           | 221,668         | 221,668      | 229,171       | 7,503                                           |
| Human resources              | 325,604         | 343,479      | 314,791       | (28,688)                                        |
| Labor attorney               | 20,000          | 20,000       | 6,438         | (13,562)                                        |
| Legal department             | 715,732         | 715,732      | 678,372       | (37,360)                                        |
| Elections                    | 127,618         | 113,531      | 114,250       | 719                                             |
| Civil service                | 142,540         | 93,757       | 96,116        | 2,359                                           |
| Total administration         | 3,191,771       | 3,289,172    | 3,088,172     | (201,000)                                       |
| Community development:       |                 |              |               |                                                 |
| City planning                | 584,587         | 604,837      | 466,665       | (138,172)                                       |
| Inspection                   | 515,088         | 515,088      | 483,868       | (31,220)                                        |
| Housing board of appeals     | 2,200           | 2,200        | 2,438         | 238                                             |
| Intermodal facility          | 67,509          | 67,509       | 62,661        | (4,848)                                         |
| Total community development  | 1,169,384       | 1,189,634    | 1,015,632     | (174,002)                                       |
| Finance:                     |                 |              |               |                                                 |
| Accounting                   | 895,724         | 908,342      | 860,221       | (48,121)                                        |
| Purchasing                   | 438,095         | 438,534      | 410,686       | (27,848)                                        |
| Treasurer's office           | 370,250         | 370,941      | 317,556       | (53,385)                                        |
| Assessing                    | 691,298         | 691,298      | 653,067       | (38,231)                                        |
| Income tax division          | 520,285         | 520,787      | 489,772       | (31,015)                                        |
| Total finance                | 2,915,652       | 2,929,902    | 2,731,302     | (198,600)                                       |
| District court               | -               | 300          | 89            | (211)                                           |
| Total general government     | 7,276,807       | 7,409,008    | 6,835,195     | (573,813)                                       |

Continued...

**CITY OF BATTLE CREEK, MICHIGAN**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balance - Budget and Actual (Continued)**  
**General Fund**  
**For the Year Ended June 30, 2006**

|                                 | <b>Budget</b>   |              | <b>Actual</b> | <b>Actual<br/>Over (Under)<br/>Final Budget</b> |
|---------------------------------|-----------------|--------------|---------------|-------------------------------------------------|
|                                 | <b>Original</b> | <b>Final</b> |               |                                                 |
| <b>Expenditures (continued)</b> |                 |              |               |                                                 |
| <b>Public safety</b>            |                 |              |               |                                                 |
| Police department:              |                 |              |               |                                                 |
| Administration                  | \$ 508,640      | \$ 512,708   | \$ 511,916    | \$ (792)                                        |
| Crime lab                       | 566,800         | 579,494      | 590,193       | 10,699                                          |
| Investigation                   | 1,071,971       | 1,059,185    | 1,025,047     | (34,138)                                        |
| Neighborhood enforcement        | 199,732         | 204,383      | 242,835       | 38,452                                          |
| Special investigative unit      | 462,500         | 462,546      | 468,919       | 6,373                                           |
| Management service              | 1,062,020       | 878,310      | 745,395       | (132,915)                                       |
| Patrol                          | 8,489,027       | 8,652,535    | 8,538,418     | (114,117)                                       |
| Community service               | 607,852         | 683,864      | 689,105       | 5,241                                           |
| Officer training                | 132,083         | 181,252      | 171,844       | (9,408)                                         |
| Detention center                | 158,111         | 158,111      | 152,943       | (5,168)                                         |
| Cold case team                  | 200,753         | 200,753      | 175,611       | (25,142)                                        |
| Total police department         | 13,459,489      | 13,573,141   | 13,312,226    | (260,915)                                       |
| Fire department:                |                 |              |               |                                                 |
| Administration                  | 789,800         | 790,850      | 715,445       | (75,405)                                        |
| Fire fighting                   | 7,905,680       | 8,161,040    | 8,186,512     | 25,472                                          |
| Total fire department           | 8,695,480       | 8,951,890    | 8,901,957     | (49,933)                                        |
| Dispatch                        | 1,877,793       | 1,886,735    | 1,866,465     | (20,270)                                        |
| Civil defense                   | 117,646         | 117,646      | 126,708       | 9,062                                           |
| Total public safety             | 24,150,408      | 24,529,412   | 24,207,356    | (322,056)                                       |
| <b>Public works</b>             |                 |              |               |                                                 |
| Public works director           | -               | 4,373        | 2,212         | (2,161)                                         |
| Street and storm sewers         | 148,911         | 148,911      | 245,645       | 96,734                                          |
| Engineering                     | 156,487         | 156,487      | 96,036        | (60,451)                                        |
| Street lighting                 | 955,000         | 955,000      | 1,011,948     | 56,948                                          |
| Outside service                 | 367,968         | 367,968      | 124,653       | (243,315)                                       |
| Total public works              | 1,628,366       | 1,632,739    | 1,480,494     | (152,245)                                       |

Continued...

**CITY OF BATTLE CREEK, MICHIGAN**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balance - Budget and Actual (Concluded)**  
**General Fund**  
**For the Year Ended June 30, 2006**

|                                       | <b>Budget</b>        |                     |                     | <b>Actual<br/>Over (Under)<br/>Final Budget</b> |
|---------------------------------------|----------------------|---------------------|---------------------|-------------------------------------------------|
|                                       | <b>Original</b>      | <b>Final</b>        | <b>Actual</b>       |                                                 |
| <b>Expenditures (concluded)</b>       |                      |                     |                     |                                                 |
| <b>Parks and recreation</b>           |                      |                     |                     |                                                 |
| Administration                        | \$ 635,341           | \$ 678,392          | \$ 617,288          | \$ (61,104)                                     |
| Parks, buildings and maintenance      | 889,380              | 931,944             | 879,896             | (52,048)                                        |
| Downtown maintenance                  | 324,455              | 424,455             | 444,694             | 20,239                                          |
| Sports                                | 867,112              | 864,288             | 750,664             | (113,624)                                       |
| Youth center and water park           | 1,371,400            | 1,371,799           | 1,463,226           | 91,427                                          |
| Total parks and recreation            | 4,087,688            | 4,270,878           | 4,155,768           | (115,110)                                       |
| <b>Unallocated</b>                    |                      |                     |                     |                                                 |
| Retirement benefits                   | 175,000              | 175,000             | 237,238             | 62,238                                          |
| Data processing                       | 970,094              | 1,017,094           | 1,017,094           | -                                               |
| Other                                 | 968,122              | 910,822             | 828,167             | (82,655)                                        |
| Total unallocated                     | 2,113,216            | 2,102,916           | 2,082,499           | (20,417)                                        |
| Total expenditures                    | 39,256,485           | 39,944,953          | 38,761,312          | (1,183,641)                                     |
| Revenue over (under) expenditures     | 4,416,672            | 3,945,596           | 4,675,817           | 730,221                                         |
| <b>Other financing sources (uses)</b> |                      |                     |                     |                                                 |
| Transfers in                          | 14,000               | 38,675              | 46,244              | 7,569                                           |
| Transfers out                         | (5,932,124)          | (6,791,892)         | (6,776,903)         | 14,989                                          |
| Proceeds from sales of capital assets | 631,254              | 706,254             | 631,254             | (75,000)                                        |
| Total other financing (uses)          | (5,286,870)          | (6,046,963)         | (6,099,405)         | (52,442)                                        |
| Net change in fund balances           | (870,198)            | (2,101,367)         | (1,423,588)         | 677,779                                         |
| Fund balance, beginning of year       | 11,193,564           | 11,193,564          | 11,193,564          | -                                               |
| <b>Fund balance, end of year</b>      | <b>\$ 10,323,366</b> | <b>\$ 9,092,197</b> | <b>\$ 9,769,976</b> | <b>\$ 677,779</b>                               |

The accompanying notes are an integral part of these financial statements.

**CITY OF BATTLE CREEK, MICHIGAN**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balance - Budget and Actual**  
**Community Development Special Revenue Fund**  
**For the Year Ended June 30, 2006**

|                                       | <b>Budget</b>   |              |               | <b>Actual</b>                        |
|---------------------------------------|-----------------|--------------|---------------|--------------------------------------|
|                                       | <b>Original</b> | <b>Final</b> | <b>Actual</b> | <b>Over (Under)<br/>Final Budget</b> |
| <b>Revenues</b>                       |                 |              |               |                                      |
| Intergovernmental revenue             | \$1,716,585     | \$ 2,790,930 | \$ 1,474,814  | \$ (1,316,116)                       |
| Interest                              | -               | 906          | 905           | (1)                                  |
| Loan collection and other             | -               | 61,288       | 61,288        | -                                    |
| Total revenues                        | 1,716,585       | 2,853,124    | 1,537,007     | (1,316,117)                          |
| <b>Expenditures</b>                   |                 |              |               |                                      |
| Community development                 | 1,714,335       | 2,850,874    | 1,534,757     | (1,316,117)                          |
| Revenues over (under) expenditures    | 2,250           | 2,250        | 2,250         | -                                    |
| <b>Other financing sources (uses)</b> |                 |              |               |                                      |
| Transfers out                         | (2,250)         | (2,250)      | (2,250)       | -                                    |
| Net change in fund balances           | -               | -            | -             | -                                    |
| Fund balances, beginning of year      | -               | -            | -             | -                                    |
| <b>Fund balances, end of year</b>     | <b>\$ -</b>     | <b>\$ -</b>  | <b>\$ -</b>   | <b>\$ -</b>                          |

The accompanying notes are an integral part of these financial statements.

**CITY OF BATTLE CREEK, MICHIGAN**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2006**

|                                                 | <b>Business-type Activities - Enterprise Funds</b> |                             |                               |                       | <b>Governmental Activities - Internal Service Funds</b> |
|-------------------------------------------------|----------------------------------------------------|-----------------------------|-------------------------------|-----------------------|---------------------------------------------------------|
|                                                 | <b>Water and Wastewater System</b>                 | <b>W.K. Kellogg Airport</b> | <b>Other Enterprise Funds</b> | <b>Total</b>          |                                                         |
| <b>Assets</b>                                   |                                                    |                             |                               |                       |                                                         |
| Current assets:                                 |                                                    |                             |                               |                       |                                                         |
| Pooled cash and investments                     | \$ 8,605,592                                       | \$ 617,095                  | \$ 7,916,133                  | \$ 17,138,820         | \$ 11,679,587                                           |
| Receivables:                                    |                                                    |                             |                               |                       |                                                         |
| Interest                                        | 86,281                                             | 14,817                      | 64,597                        | 165,695               | 89,744                                                  |
| Accounts                                        | 1,956,572                                          | -                           | 387,376                       | 2,343,948             | -                                                       |
| Special assessments                             | 299,260                                            | -                           | -                             | 299,260               | -                                                       |
| Grants                                          | 15,255                                             | -                           | 845,357                       | 860,612               | -                                                       |
| Loans, current portion                          | -                                                  | -                           | 2,231,680                     | 2,231,680             | -                                                       |
| Inventories                                     | 1,276,729                                          | -                           | 170,322                       | 1,447,051             | 351,912                                                 |
| Prepaid items and other assets                  | -                                                  | -                           | 63,203                        | 63,203                | 321,554                                                 |
| Total current assets                            | <u>12,239,689</u>                                  | <u>631,912</u>              | <u>11,678,668</u>             | <u>24,550,269</u>     | <u>12,442,797</u>                                       |
| Noncurrent assets:                              |                                                    |                             |                               |                       |                                                         |
| Loans receivable, net                           | -                                                  | -                           | 3,209,896                     | 3,209,896             | -                                                       |
| Capital assets, net                             | 98,773,957                                         | 9,327,102                   | 17,142,332                    | 125,243,391           | 2,511,923                                               |
| Unamortized bond issuance costs                 | 195,484                                            | -                           | -                             | 195,484               | -                                                       |
| Total noncurrent assets                         | <u>98,969,441</u>                                  | <u>9,327,102</u>            | <u>20,352,228</u>             | <u>128,648,771</u>    | <u>2,511,923</u>                                        |
| Total assets                                    | <u>111,209,130</u>                                 | <u>9,959,014</u>            | <u>32,030,896</u>             | <u>153,199,040</u>    | <u>14,954,720</u>                                       |
| <b>Liabilities</b>                              |                                                    |                             |                               |                       |                                                         |
| Current liabilities:                            |                                                    |                             |                               |                       |                                                         |
| Accounts payable                                | 6,405                                              | 2,200                       | 3,254,038                     | 3,262,643             | -                                                       |
| Accrued payroll and compensated absences        | 325,866                                            | 38,192                      | 87,955                        | 452,013               | 146,132                                                 |
| Retentions, deposits and other liabilities      | 168,596                                            | -                           | -                             | 168,596               | -                                                       |
| Accrued interest payable                        | 307,881                                            | 26,505                      | 68,448                        | 402,834               | -                                                       |
| Claims payable                                  | -                                                  | -                           | -                             | -                     | 4,280,574                                               |
| Interfund payable                               | -                                                  | -                           | 2,852,214                     | 2,852,214             | -                                                       |
| Unearned revenue                                | -                                                  | 53,885                      | 43,585                        | 97,470                | -                                                       |
| Lease payable, current portion                  | -                                                  | 116,404                     | -                             | 116,404               | -                                                       |
| Bonds payable, current portion                  | 1,235,000                                          | -                           | 335,000                       | 1,570,000             | -                                                       |
| Total current liabilities                       | <u>2,043,748</u>                                   | <u>237,186</u>              | <u>6,641,240</u>              | <u>8,922,174</u>      | <u>4,426,706</u>                                        |
| Noncurrent liabilities:                         |                                                    |                             |                               |                       |                                                         |
| Advances from component unit                    | -                                                  | -                           | 397,540                       | 397,540               | -                                                       |
| Lease payable                                   | -                                                  | 974,544                     | -                             | 974,544               | -                                                       |
| Bonds payable                                   | 20,055,626                                         | -                           | 3,848,865                     | 23,904,491            | -                                                       |
| Total noncurrent liabilities                    | <u>20,055,626</u>                                  | <u>974,544</u>              | <u>4,246,405</u>              | <u>25,276,575</u>     | <u>-</u>                                                |
| Total liabilities                               | <u>22,099,374</u>                                  | <u>1,211,730</u>            | <u>10,887,645</u>             | <u>34,198,749</u>     | <u>4,426,706</u>                                        |
| <b>Net assets</b>                               |                                                    |                             |                               |                       |                                                         |
| Invested in capital assets, net of related debt | 77,483,331                                         | 8,236,154                   | 12,958,467                    | 98,677,952            | 2,511,923                                               |
| Unrestricted                                    | 11,626,425                                         | 511,130                     | 8,184,784                     | 20,322,339            | 8,016,091                                               |
| Total net assets                                | <u>\$ 89,109,756</u>                               | <u>\$ 8,747,284</u>         | <u>\$ 21,143,251</u>          | <u>\$ 119,000,291</u> | <u>\$ 10,528,014</u>                                    |

The accompanying notes are an integral part of these financial statements.

**CITY OF BATTLE CREEK, MICHIGAN**  
**Reconciliation of Net Assets on the Statement of**  
**Net Assets for Enterprise Funds to Net Assets of**  
**Business-type Activities on the Statement of Net Assets**  
**June 30, 2006**

|                                            |                |
|--------------------------------------------|----------------|
| <b>Net assets - total enterprise funds</b> | \$ 119,000,291 |
|--------------------------------------------|----------------|

Amounts reported for *business-type activities* in the statement of net assets are different because:

Internal service funds are used by management to charge the costs of certain services to individual governmental and enterprise funds. The net revenue (expense) of the internal service funds are allocated to governmental and business-type activities.

|                                                                                                            |                |
|------------------------------------------------------------------------------------------------------------|----------------|
| Deduct - cumulative portion of internal service funds net operating loss<br>attributed to enterprise funds | <u>491,096</u> |
|------------------------------------------------------------------------------------------------------------|----------------|

|                                               |                              |
|-----------------------------------------------|------------------------------|
| <b>Net assets of business-type activities</b> | <u><u>\$ 119,491,387</u></u> |
|-----------------------------------------------|------------------------------|

The accompanying notes are an integral part of these financial statements.

# CITY OF BATTLE CREEK, MICHIGAN

## Statement of Revenues, Expenses and Changes in Fund Net Assets Proprietary Funds For the Year Ended June 30, 2006

|                                                     | <b>Business-type Activities - Enterprise Funds</b> |                                 |                                       | <b>Governmental<br/>Activities -<br/>Internal<br/>Service Funds</b> |
|-----------------------------------------------------|----------------------------------------------------|---------------------------------|---------------------------------------|---------------------------------------------------------------------|
|                                                     | <b>Water and<br/>Wastewater<br/>System</b>         | <b>W.K. Kellogg<br/>Airport</b> | <b>Other<br/>Enterprise<br/>Funds</b> | <b>Total</b>                                                        |
| <b>Operating revenues</b>                           |                                                    |                                 |                                       |                                                                     |
| Charges for services                                | \$ 16,664,069                                      | \$ 658,367                      | \$ 4,860,510                          | \$ 22,182,946                                                       |
| Other                                               | 400,370                                            | 5,760                           | 174,043                               | 580,173                                                             |
| Total operating revenues                            | 17,064,439                                         | 664,127                         | 5,034,553                             | 22,763,119                                                          |
| <b>Operating expenses</b>                           |                                                    |                                 |                                       |                                                                     |
| Personal services                                   | 7,862,781                                          | 661,456                         | 2,864,707                             | 11,388,944                                                          |
| Materials and supplies                              | 1,297,588                                          | 86,530                          | 879,298                               | 2,263,416                                                           |
| Contractual and other                               | 5,373,236                                          | 400,810                         | 4,451,273                             | 10,225,319                                                          |
| Depreciation                                        | 6,367,322                                          | 471,061                         | 1,004,291                             | 7,842,674                                                           |
| Total operating expenses                            | 20,900,927                                         | 1,619,857                       | 9,199,569                             | 31,720,353                                                          |
| Operating income (loss)                             | (3,836,488)                                        | (955,730)                       | (4,165,016)                           | (8,957,234)                                                         |
| <b>Nonoperating revenues (expenses)</b>             |                                                    |                                 |                                       |                                                                     |
| Intergovernmental subsidies                         | 141,236                                            | 658,067                         | 2,382,180                             | 3,181,483                                                           |
| Loss on disposal of assets                          | -                                                  | -                               | (19,622)                              | (19,622)                                                            |
| Interest income                                     | 233,016                                            | 47,302                          | 221,351                               | 501,669                                                             |
| Interest expense                                    | (1,042,499)                                        | (54,607)                        | (229,147)                             | (1,326,253)                                                         |
| Gain (loss) on sale of capital assets               | -                                                  | 338                             | -                                     | 338                                                                 |
| Total nonoperating revenues (expenses)              | (668,247)                                          | 651,100                         | 2,354,762                             | 2,337,615                                                           |
| Income (loss) before contributions<br>and transfers | (4,504,735)                                        | (304,630)                       | (1,810,254)                           | (6,619,619)                                                         |
| <b>Capital contributions</b>                        | -                                                  | 1,924,369                       | -                                     | 1,924,369                                                           |
| <b>Transfers in</b>                                 | 183,900                                            | -                               | 1,277,110                             | 1,461,010                                                           |
| <b>Transfers out</b>                                | (489,005)                                          | (5,875)                         | (270,650)                             | (765,530)                                                           |
| Change in net assets                                | (4,809,840)                                        | 1,613,864                       | (803,794)                             | (3,999,770)                                                         |
| Net assets, beginning of year, as restated          | 93,919,596                                         | 7,133,420                       | 21,947,045                            | 123,000,061                                                         |
| <b>Net assets, end of year</b>                      | <u>\$ 89,109,756</u>                               | <u>\$8,747,284</u>              | <u>\$ 21,143,251</u>                  | <u>\$ 119,000,291</u>                                               |
|                                                     |                                                    |                                 |                                       | <u>\$ 10,528,014</u>                                                |

The accompanying notes are an integral part of these financial statements.

**CITY OF BATTLE CREEK, MICHIGAN**  
**Reconciliation of the Statement of Revenues, Expenses**  
**and Changes in Fund Net Assets of Enterprise Funds**  
**to the Statement of Activities**  
**For the Year Ended June 30, 2006**

|                                                      |                |
|------------------------------------------------------|----------------|
| <b>Change in net assets - total enterprise funds</b> | \$ (3,999,770) |
|------------------------------------------------------|----------------|

Amounts reported for *business-type activities* in the statement of activities are different because:

Internal service funds are used by management to charge the costs of certain services to individual governmental and enterprise funds. The net revenue (expense) of the internal service funds are allocated to governmental and business-type activities.

|                                                                                    |                |
|------------------------------------------------------------------------------------|----------------|
| Add - net operating income from internal service funds related to enterprise funds | <u>576,077</u> |
|------------------------------------------------------------------------------------|----------------|

|                                                         |                              |
|---------------------------------------------------------|------------------------------|
| <b>Change in net assets of business-type activities</b> | <u><u>\$ (3,423,693)</u></u> |
|---------------------------------------------------------|------------------------------|

The accompanying notes are an integral part of these financial statements.



**CITY OF BATTLE CREEK, MICHIGAN**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2006**

|                                                                         | <b>Business-type Activities - Enterprise Funds</b> |                             |                               |                      | <b>Governmental Activities - Internal Service Funds</b> |
|-------------------------------------------------------------------------|----------------------------------------------------|-----------------------------|-------------------------------|----------------------|---------------------------------------------------------|
|                                                                         | <b>Water and Wastewater System</b>                 | <b>W.K. Kellogg Airport</b> | <b>Other Enterprise Funds</b> | <b>Total</b>         |                                                         |
| <b>Cash flows from operating activities</b>                             |                                                    |                             |                               |                      |                                                         |
| Receipts from customers and users                                       | \$ 17,734,336                                      | \$ 44,050                   | \$ 5,157,145                  | \$ 22,935,531        | \$ -                                                    |
| Loans collected from borrowers                                          | -                                                  | -                           | 1,126,437                     | 1,126,437            | -                                                       |
| Loans made to borrowers                                                 | -                                                  | -                           | (659,286)                     | (659,286)            | -                                                       |
| Receipts from interfund services                                        | -                                                  | -                           | -                             | -                    | 18,192,881                                              |
| Payments to suppliers                                                   | (5,139,160)                                        | (950,981)                   | (4,691,474)                   | (10,781,615)         | (13,744,943)                                            |
| Payments to employees                                                   | (7,861,116)                                        | (662,356)                   | (2,880,169)                   | (11,403,641)         | (2,513,298)                                             |
| Payments for interfund services                                         | (1,707,971)                                        | (113,332)                   | (374,695)                     | (2,195,998)          | -                                                       |
| Net cash provided by (used in) operating activities                     | 3,026,089                                          | (1,682,619)                 | (2,322,042)                   | (978,572)            | 1,934,640                                               |
| <b>Cash flows from non-capital financing activities</b>                 |                                                    |                             |                               |                      |                                                         |
| Transfers in                                                            | 183,900                                            | -                           | 1,277,110                     | 1,461,010            | 556,673                                                 |
| Transfers out                                                           | (489,005)                                          | (5,875)                     | (270,650)                     | (765,530)            | (788,589)                                               |
| Intergovernmental subsidies                                             | 133,261                                            | 658,067                     | 2,543,569                     | 3,334,897            | -                                                       |
| Net cash provided by (used in) non-capital financing activities         | (171,844)                                          | 652,192                     | 3,550,029                     | 4,030,377            | (231,916)                                               |
| <b>Cash flows from capital and related financing activities</b>         |                                                    |                             |                               |                      |                                                         |
| Proceeds from interfund borrowing                                       | -                                                  | -                           | 36,061                        | 36,061               | -                                                       |
| Proceeds from capital lease                                             | -                                                  | 328,523                     | -                             | 328,523              | -                                                       |
| Principal and interest paid on debt                                     | (2,253,133)                                        | -                           | (553,467)                     | (2,806,600)          | -                                                       |
| Principal and interest paid on capital lease                            | -                                                  | (125,712)                   | -                             | (125,712)            | -                                                       |
| Purchase of capital assets                                              | (1,392,674)                                        | -                           | (41,917)                      | (1,434,591)          | (805,790)                                               |
| Proceeds from sale of capital assets                                    | -                                                  | 338                         | -                             | 338                  | -                                                       |
| Receipts from loans receivable                                          | -                                                  | 20,797                      | -                             | 20,797               | -                                                       |
| Net cash provided by (used in) capital and related financing activities | (3,645,807)                                        | 223,946                     | (559,323)                     | (3,981,184)          | (805,790)                                               |
| <b>Cash flows from investing activities</b>                             |                                                    |                             |                               |                      |                                                         |
| Interest received on investments                                        | 215,789                                            | 45,723                      | 199,429                       | 460,941              | 74,135                                                  |
| Net increase (decrease) in cash and cash equivalents                    | (575,773)                                          | (760,758)                   | 868,093                       | (468,438)            | 971,069                                                 |
| <b>Cash and cash equivalents</b>                                        |                                                    |                             |                               |                      |                                                         |
| Beginning of year                                                       | 9,181,365                                          | 1,377,853                   | 7,048,040                     | 17,607,258           | 10,708,518                                              |
| <b>End of year</b>                                                      | <u>\$ 8,605,592</u>                                | <u>\$ 617,095</u>           | <u>\$ 7,916,133</u>           | <u>\$ 17,138,820</u> | <u>\$ 11,679,587</u>                                    |

Continued...

**CITY OF BATTLE CREEK, MICHIGAN**  
**Statement of Cash Flows (Concluded)**  
**Proprietary Funds**  
**For the Year Ended June 30, 2006**

|                                                                                                         | <b>Business-type Activities - Enterprise Funds</b> |                                 |                                       |                     | <b>Governmental<br/>Activities -<br/>Internal<br/>Service Funds</b> |
|---------------------------------------------------------------------------------------------------------|----------------------------------------------------|---------------------------------|---------------------------------------|---------------------|---------------------------------------------------------------------|
|                                                                                                         | <b>Water<br/>&amp; Wastewater<br/>System</b>       | <b>W.K. Kellogg<br/>Airport</b> | <b>Other<br/>Enterprise<br/>Funds</b> | <b>Total</b>        |                                                                     |
| <b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b> |                                                    |                                 |                                       |                     |                                                                     |
| Operating income (loss)                                                                                 | \$ (3,836,488)                                     | \$ (955,730)                    | \$ (4,165,016)                        | \$ (8,957,234)      | \$ 2,123,225                                                        |
| Adjustments to reconcile operating income (loss) to net cash from operating activities:                 |                                                    |                                 |                                       |                     |                                                                     |
| Depreciation                                                                                            | 6,367,322                                          | 471,061                         | 1,004,291                             | 7,842,674           | 829,701                                                             |
| Amortization                                                                                            | 108,677                                            | -                               | 1,138                                 | 109,815             | -                                                                   |
| Changes in assets and liabilities:                                                                      |                                                    |                                 |                                       |                     |                                                                     |
| Accounts receivable                                                                                     | 669,177                                            | -                               | 109,463                               | 778,640             | 16,092                                                              |
| Special assessments receivable                                                                          | 79,729                                             | -                               | -                                     | 79,729              | -                                                                   |
| Loans receivable                                                                                        | -                                                  | -                               | 996,805                               | 996,805             | -                                                                   |
| Inventories                                                                                             | (35,436)                                           | -                               | (50,512)                              | (85,948)            | (70,559)                                                            |
| Prepaid items                                                                                           | -                                                  | 50                              | -                                     | 50                  | (22,658)                                                            |
| Accounts payable                                                                                        | (248,407)                                          | (548,311)                       | 137,720                               | (658,998)           | -                                                                   |
| Accrued payroll/compensated absences                                                                    | 1,665                                              | (900)                           | (15,462)                              | (14,697)            | (54,079)                                                            |
| Retentions, deposits and other liabilities                                                              | (1,141)                                            | (28,712)                        | (7,147)                               | (37,000)            | -                                                                   |
| Claims payable                                                                                          | -                                                  | -                               | -                                     | -                   | (804,567)                                                           |
| Interfund payable                                                                                       | -                                                  | -                               | (313,633)                             | (313,633)           | -                                                                   |
| Unearned revenue                                                                                        | (79,009)                                           | (620,077)                       | (19,689)                              | (718,775)           | (82,515)                                                            |
| <b>Net cash provided by (used in) operating activities</b>                                              | <b>\$ 3,026,089</b>                                | <b>\$(1,682,619)</b>            | <b>\$ (2,322,042)</b>                 | <b>\$ (978,572)</b> | <b>\$ 1,934,640</b>                                                 |

**Non-Cash Items:**

As described in Note 1-D to the basic financial statements, the City maintains an investment pool for all funds. Accordingly, specific non-cash disclosures for changes in the fair value of investments in the proprietary funds are not determinable.

A capital lease in the amount of \$318,780 was entered into during the year and recorded in the W.K. Kellogg Airport enterprise fund.

Capital contributions of \$1,924,369 were received during the year in the W.K. Kellogg Airport enterprise fund.

The accompanying notes are an integral part of these financial statements.

**CITY OF BATTLE CREEK, MICHIGAN**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2006**

|                                                                     | <b>Police and Fire<br/>Retirement<br/>System<br/>Trust Fund</b> | <b>Agency<br/>Funds</b>    |
|---------------------------------------------------------------------|-----------------------------------------------------------------|----------------------------|
| <b>Assets</b>                                                       |                                                                 |                            |
| Pooled cash and investments                                         | \$ -                                                            | \$ 182,595                 |
| Cash and cash equivalents                                           | 3,880,847                                                       | -                          |
| Investments:                                                        |                                                                 |                            |
| U.S. treasuries                                                     | 7,054,174                                                       | -                          |
| U.S. agencies                                                       | 13,271,995                                                      | -                          |
| Domestic corporate securities                                       | 15,766,422                                                      | -                          |
| Domestic equities                                                   | 44,427,646                                                      | -                          |
| American depository receipts                                        | 14,251,688                                                      | -                          |
| International equities                                              | 3,074,664                                                       | -                          |
| Interest receivable                                                 | 455,641                                                         | -                          |
| Pension contributions receivable                                    | 90,979                                                          | -                          |
| Delinquent taxes receivable                                         | -                                                               | 2,251,707                  |
|                                                                     | <hr/>                                                           | <hr/>                      |
| Total assets                                                        | 102,274,056                                                     | <u><u>\$ 2,434,302</u></u> |
| <b>Liabilities</b>                                                  |                                                                 |                            |
| Deposits and retentions payable                                     | -                                                               | <u><u>\$ 2,434,302</u></u> |
| <b>Net assets</b>                                                   |                                                                 |                            |
| Held in trust for pension and postemployment<br>healthcare benefits | <u><u>\$ 102,274,056</u></u>                                    |                            |

The accompanying notes are an integral part of these financial statements.

**CITY OF BATTLE CREEK, MICHIGAN**  
**Statement of Changes in Fiduciary Net Assets**  
**Police and Fire Retirement System**  
**For the Year Ended June 30, 2006**

**Additions**

|                                                                          |    |                    |
|--------------------------------------------------------------------------|----|--------------------|
| Investment income:                                                       |    |                    |
| Net realized and unrealized appreciation<br>in fair value of investments | \$ | 3,563,616          |
| Interest and dividends                                                   |    | 6,035,795          |
| Less investment expenses                                                 |    | <u>(1,311,421)</u> |
| Net investment income                                                    |    | <u>8,287,990</u>   |
| Contributions:                                                           |    |                    |
| Employer                                                                 |    | 3,108,229          |
| Employees                                                                |    | <u>979,497</u>     |
| Total contributions                                                      |    | <u>4,087,726</u>   |
| Total additions                                                          |    | <u>12,375,716</u>  |

**Deductions**

|                            |  |                  |
|----------------------------|--|------------------|
| Pension benefit payments   |  | 6,166,401        |
| Contribution refunds       |  | 105,665          |
| Medical insurance premiums |  | 1,679,023        |
| Administrative expenses    |  | <u>28,543</u>    |
| Total deductions           |  | <u>7,979,632</u> |

**Net additions (deductions) to net assets held in trust for benefit:**

|                                                          |    |                  |                   |
|----------------------------------------------------------|----|------------------|-------------------|
| Employees' pension benefit:                              | \$ | 5,358,687        |                   |
| Postemployment healthcare benefit:                       |    | <u>(962,603)</u> | 4,396,084         |
| Net assets held in trust for benefits, beginning of year |    |                  | <u>97,877,972</u> |

**Net assets held in trust for benefits, end of year**

|                                                             |                |                       |
|-------------------------------------------------------------|----------------|-----------------------|
| Restricted for employees' pension benefit                   | 101,793,640    |                       |
| Restricted for employees' postemployment healthcare benefit | <u>480,416</u> | <u>\$ 102,274,056</u> |

The accompanying notes are an integral part of these financial statements.

**COMPONENT UNITS  
FINANCIAL STATEMENTS**

**CITY OF BATTLE CREEK, MICHIGAN**  
**Combining Statement of Net Assets**  
**Component Units**  
**June 30, 2006**

|                                                      | <b>Battle Creek<br/>Downtown<br/>Development<br/>Authority</b> | <b>Lakeview<br/>Downtown<br/>Development<br/>Authority</b> | <b>Battle Creek<br/>Tax Increment<br/>Financing<br/>Authority</b> | <b>Brownfield<br/>Redevelopment<br/>Authority</b> | <b>Local<br/>Development<br/>Finance<br/>Authority</b> | <b>Total</b>           |
|------------------------------------------------------|----------------------------------------------------------------|------------------------------------------------------------|-------------------------------------------------------------------|---------------------------------------------------|--------------------------------------------------------|------------------------|
| <b>Assets</b>                                        |                                                                |                                                            |                                                                   |                                                   |                                                        |                        |
| Pooled cash and investment                           | \$ 6,050,519                                                   | \$ 200,410                                                 | \$ 6,494,998                                                      | \$ 30,420                                         | \$ 5,423                                               | \$ 12,781,770          |
| Receivables, net                                     | 1,309,031                                                      | 11,608                                                     | 4,093,687                                                         | 308                                               | 55                                                     | 5,414,689              |
| Prepaid items and other asset                        | 462,575                                                        | -                                                          | -                                                                 | -                                                 | -                                                      | 462,575                |
| Advance to primary government                        | -                                                              | -                                                          | 397,540                                                           | -                                                 | -                                                      | 397,540                |
| Capital assets not being depreciated                 | -                                                              | -                                                          | 11,679,397                                                        | -                                                 | -                                                      | 11,679,397             |
| Capital assets being depreciated, net                | -                                                              | -                                                          | 591,156                                                           | -                                                 | -                                                      | 591,156                |
| <b>Total assets</b>                                  | <b>7,822,125</b>                                               | <b>212,018</b>                                             | <b>23,256,778</b>                                                 | <b>30,728</b>                                     | <b>5,478</b>                                           | <b>31,327,127</b>      |
| <b>Liabilities</b>                                   |                                                                |                                                            |                                                                   |                                                   |                                                        |                        |
| Accounts payable and accrued liabilities             | 494,298                                                        | -                                                          | -                                                                 | -                                                 | -                                                      | 494,298                |
| Accrued interest payable                             | -                                                              | -                                                          | 109,044                                                           | -                                                 | -                                                      | 109,044                |
| Other liabilities                                    | -                                                              | -                                                          | 810                                                               | -                                                 | -                                                      | 810                    |
| Long-term liabilities                                |                                                                |                                                            |                                                                   |                                                   |                                                        |                        |
| Due within one year                                  | -                                                              | -                                                          | 1,776,728                                                         | -                                                 | -                                                      | 1,776,728              |
| Due in more than one year                            | 49,003,750                                                     | -                                                          | 13,182,817                                                        | -                                                 | -                                                      | 62,186,567             |
| <b>Total liabilities</b>                             | <b>49,498,048</b>                                              | <b>-</b>                                                   | <b>15,069,399</b>                                                 | <b>-</b>                                          | <b>-</b>                                               | <b>64,567,447</b>      |
| <b>Net assets</b>                                    |                                                                |                                                            |                                                                   |                                                   |                                                        |                        |
| Invested in capital assets, net of related debt      | -                                                              | -                                                          | 8,000,146                                                         | -                                                 | -                                                      | 8,000,146              |
| Restricted for debt service                          | 3,833,095                                                      | -                                                          | 31                                                                | -                                                 | -                                                      | 3,833,126              |
| Restricted for capital projects                      | -                                                              | 46,648                                                     | 10,599,591                                                        | -                                                 | -                                                      | 10,646,239             |
| Restricted for loan commitments and minority lending | 1,462,046                                                      | -                                                          | -                                                                 | -                                                 | -                                                      | 1,462,046              |
| Unrestricted (deficit)                               | (46,971,064)                                                   | 165,370                                                    | (10,412,389)                                                      | 30,728                                            | 5,478                                                  | (57,181,877)           |
| <b>Total net assets (deficit)</b>                    | <b>\$ (41,675,923)</b>                                         | <b>\$ 212,018</b>                                          | <b>\$ 8,187,379</b>                                               | <b>\$ 30,728</b>                                  | <b>\$ 5,478</b>                                        | <b>\$ (33,240,320)</b> |

The accompanying notes are an integral part of these financial statements.

**CITY OF BATTLE CREEK, MICHIGAN**  
**Combining Statement of Activities**  
**Component Units**  
**For the Year Ended June 30, 2006**

|                                          | <b>Battle Creek<br/>Downtown<br/>Development<br/>Authority</b> | <b>Lakeview<br/>Downtown<br/>Development<br/>Authority</b> | <b>Battle Creek<br/>Tax Increment<br/>Financing<br/>Authority</b> | <b>Brownfield<br/>Redevelopment<br/>Authority</b> | <b>Local<br/>Development<br/>Finance<br/>Authority</b> | <b>Total</b>           |
|------------------------------------------|----------------------------------------------------------------|------------------------------------------------------------|-------------------------------------------------------------------|---------------------------------------------------|--------------------------------------------------------|------------------------|
| <b>Expenses</b>                          |                                                                |                                                            |                                                                   |                                                   |                                                        |                        |
| Community development                    | \$ 5,327,529                                                   | \$ 1,937,166                                               | \$ 7,942,402                                                      | \$ 1,750                                          | \$ 1,500                                               | \$ 15,210,347          |
| <b>Program revenues</b>                  |                                                                |                                                            |                                                                   |                                                   |                                                        |                        |
| Charges for services                     | 27,120                                                         | -                                                          | 38,559                                                            | -                                                 | -                                                      | 65,679                 |
| Net program expense                      | 5,300,409                                                      | 1,937,166                                                  | 7,903,843                                                         | 1,750                                             | 1,500                                                  | 15,144,668             |
| <b>General revenues</b>                  |                                                                |                                                            |                                                                   |                                                   |                                                        |                        |
| Property taxes                           | 4,915,652                                                      | 1,906,881                                                  | 8,668,325                                                         | 10,513                                            | 5,419                                                  | 15,506,790             |
| Unrestricted investment earnings         | 112,891                                                        | 23,856                                                     | 207,665                                                           | 361                                               | (26)                                                   | 344,747                |
| Total general revenues                   | 5,028,543                                                      | 1,930,737                                                  | 8,875,990                                                         | 10,874                                            | 5,393                                                  | 15,851,537             |
| Change in net assets                     | (271,866)                                                      | (6,429)                                                    | 972,147                                                           | 9,124                                             | 3,893                                                  | 706,869                |
| Net assets (deficit), beginning of year  | (41,404,057)                                                   | 218,447                                                    | 7,215,232                                                         | 21,604                                            | 1,585                                                  | (33,947,189)           |
| <b>Net assets (deficit), end of year</b> | <u>\$ (41,675,923)</u>                                         | <u>\$ 212,018</u>                                          | <u>\$ 8,187,379</u>                                               | <u>\$ 30,728</u>                                  | <u>\$ 5,478</u>                                        | <u>\$ (33,240,320)</u> |

The accompanying notes are an integral part of these financial statements.

## NOTES to the FINANCIAL STATEMENTS



# CITY OF BATTLE CREEK, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

### INDEX

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# CITY OF BATTLE CREEK, MICHIGAN

## Notes To Financial Statements

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 1-A. Reporting Entity

The accompanying financial statements present the activities of the City of Battle Creek, Michigan (the “City” or “government”) and its five component units, legally separate organizations for which the City is financially accountable. The activities of the Building Authority are so intertwined with the City that it is, in substance, the same as the City and, therefore, is blended and reported as if it were part of the City. The other four component units are not so intertwined and, therefore, are discretely presented in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City. The component units each have a June 30 year-end.

| <b><u>Component Unit</u></b>                                                                                                                                                            | <b><u>Included in the Reporting Entity Because</u></b>                      | <b><u>Separate Financial Statements Available</u></b> |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|-------------------------------------------------------|
| Building Authority (BA); finances and constructs the City’s public buildings                                                                                                            | City Commission appoints and may remove BA board                            | Not prepared                                          |
| Downtown Development Authority (DDA); corrects and prevents deterioration in the downtown district, encourages historical preservation and promotes economic growth within the district | City Commission appoints and may remove DDA board and approves DDA budget   | Finance Department in City Hall                       |
| Lakeview Downtown Development Authority (LDDA); promotes development of the Lakeview district                                                                                           | City Commission appoints and may remove LDDA board and approves LDDA budget | Finance Department in City Hall                       |
| Tax Increment Financing Authority (TIFA); administers the Fort Custer Industrial Park development district                                                                              | City Commission appoints and may remove TIFA board and approves TIFA budget | Finance Department in City Hall                       |
| Brownfield Redevelopment Authority (BRA); administers brownfield redevelopment projects                                                                                                 | City Commission appoints and may remove BRA Board and approves BRA budget   | Finance Department in City Hall                       |
| Local Development Finance Authority (LDFA); encourages technological development through the City’s “ <i>SmartZone</i> ”                                                                | City Commission appoints and may remove LDFA Board and approves LDFA budget | Finance Department in City Hall                       |

# CITY OF BATTLE CREEK, MICHIGAN

## Notes To Financial Statements

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### 1-B. Basis of Presentation

*Government-wide Financial Statements.* The statements of net assets and activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the City's *governmental* and *business-type activities*. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees, fines and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

*Fund Financial Statements.* The fund financial statements provide information about the City's funds, including its fiduciary funds and blended component units. Separate statements for each fund category – *governmental*, *proprietary* and *fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

*General fund.* This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

*Community development fund.* This fund accounts for grants under the Housing and Community Development Act of 1974, as amended. The Act provides for a series of grants over a period of years to be used for various community development activities.

The City reports the following major enterprise funds:

*Water and wastewater system fund.* This fund accounts for the activities of the City's water distribution, water treatment, sewage disposal and sewage treatment systems.

*W.K. Kellogg Airport fund.* This fund accounts for the operations of the City-owned airport.

# CITY OF BATTLE CREEK, MICHIGAN

## Notes To Financial Statements

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Additionally, the City reports the following fund types:

*Special revenue funds.* These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

*Debt service funds.* These funds account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

*Capital projects funds.* These funds account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

*Permanent funds.* These funds account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the government's programs.

*Enterprise funds.* These funds account for those operations that are financed and operated in a manner similar to private business or where the City has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

*Internal service funds.* These funds account for operations that provide services to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis. This includes machinery, equipment and building space management services; liability, auto, and workers' compensation self-insurance; information technology services; and printing, mailing and reproduction services.

*Pension trust fund.* This fund accounts for the activities of the Police and Fire Retirement System, which accumulates resources for retirement benefit payments to qualified employees.

*Agency funds.* These funds account for assets held for other governments in an agency capacity.

### 1-C. Measurement Focus / Basis of Accounting

*Government-wide, Proprietary and Fiduciary Fund Financial Statements.* The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

# CITY OF BATTLE CREEK, MICHIGAN

## Notes To Financial Statements

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Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

*Governmental Fund Financial Statements.* Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year-end, except for income tax revenue for which a 15-day collection period is used. Property taxes, franchise taxes, licenses and interest are considered to be susceptible to accrual.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues, subject to satisfying any grant program matching provisions.

All governmental and business-type activities and enterprise funds of the City follow private-sector standards of accounting and financial reported issued prior to December 1, 1989, unless those standards conflict with guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

### **1-D. Assets, Liabilities and Equity**

#### **Deposits and Investments**

The City maintains an investment pool for all City funds. Each fund's portion of the investment pool is displayed on the statement of net assets/balance sheet as "pooled cash and investments." The cash resources of the Police and Fire Retirement System Trust Fund are invested separately. The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments. The State's Pension Investment Act, as amended, authorizes the pension trust fund to invest in common stocks, real estate, and various other investment instruments, subject to certain limitations.

# CITY OF BATTLE CREEK, MICHIGAN

## Notes To Financial Statements

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Investments are stated at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have established market values are reported at estimated fair value. Cash deposits are reported at carrying amounts, which reasonably approximates fair value.

Unrealized appreciation or depreciation on pension trust fund investments due to changes in fair value are recognized each year.

### **Receivables and Payables**

All trade and delinquent property tax receivables are shown net of an allowance for uncollectibles, as applicable.

Certain loans receivable in governmental funds consist of rehabilitation and redevelopment loans that are generally not expected or scheduled to be collected in the subsequent year.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either *interfund receivables/payables* (i.e., the current portion of interfund loans) or *advances to/from other funds* (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as *due to/from other funds*. Any residual balances outstanding between the governmental and business-type activities are reported in the government-wide financial statements as *internal balances*.

### **Inventories, Prepaid Items and Other Assets**

All inventories are valued at cost using the first-in/first-out method. Inventories of governmental funds are recorded as expenditures when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

### **Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

# CITY OF BATTLE CREEK, MICHIGAN

## Notes To Financial Statements

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The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u>                              | <u>Years</u> |
|--------------------------------------------|--------------|
| Land improvements                          | 5-50         |
| Buildings and building improvements        | 50           |
| Public domain infrastructure               | 50           |
| Water and wastewater system infrastructure | 25-50        |
| Vehicles                                   | 7-10         |
| Office equipment                           | 6-10         |
| Machinery and equipment                    | 3-10         |

### Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and compensatory time benefits, subject to certain limitations. Certain bargaining unit employees are also permitted to accumulate earned but unused sick leave. All vacation and compensatory time pay and 50 percent of sick leave are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

### Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

# CITY OF BATTLE CREEK, MICHIGAN

## Notes To Financial Statements

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In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### **Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Fund balance designations represent tentative management plans that are subject to change.

## **NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### **2-A. Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at year end, except for those approved by the City Commission for carry forward. The legal level of budgetary control is the fund level.

The City Commission requires the City Manager to submit an estimate of revenues and anticipated expenditures for the succeeding fiscal year in June. The City Manager is then authorized to assign and transfer budget amounts within each fund to the extent that the net total fund appropriation (which the City defines as gross authorized expenditures less related revenues that are specifically designated to fund those activities) is not exceeded. City Commission approval is required for any budgetary changes that result in an increase to net appropriations.

Formal budgetary integration is employed as a management control during the year. Supplemental appropriations were approved by the City Commission in the form of budget amendment resolutions or as part of special authorizing motions for grants, bonds or notes, the total of which was not significant in relation to the original budget appropriation valuations.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders or contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.



# CITY OF BATTLE CREEK, MICHIGAN

## Notes To Financial Statements

### 2-B. Excess of Expenditures Over Appropriations

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated. The approved budgets of the City were adopted on a fund level basis, although budget and actual information in the fund financial statements have been presented at a level of detail greater than the level of legal budgetary control.

During the year ended June 30, 2006, the City incurred no expenditures in excess of the amounts appropriated at the legal level of budgetary control, except for Kellogg Arena special revenue fund that had expenditures in excess of appropriations totaling \$1,470,237.

### 2-C. Deficit Fund Equity

The Binder Park golf course enterprise fund has an accumulated net asset deficit of \$98,160 at year end. A multi-year plan to eliminate the deficit has been developed by the City and approved by the State of Michigan.

## NOTE 3 – DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

### 3-A. Deposits and Investments – Pooled Cash and Investments

Following is a reconciliation of deposit and investment balances (including both pooled cash and investments as well as pension trust fund balances; see Note 3-B) as of June 30, 2006:

|                                                                        | <b>Primary<br/>Governments</b> | <b>Component<br/>Units</b> | <b>Total</b>          |
|------------------------------------------------------------------------|--------------------------------|----------------------------|-----------------------|
| <b>Statement of Net Assets:</b>                                        |                                |                            |                       |
| Pooled cash and investments                                            | \$ 45,797,337                  | \$ 12,781,770              | \$ 58,579,107         |
| <b>Statement of Fiduciary Net Assets:</b>                              |                                |                            |                       |
| Pooled cash and investments                                            | 182,595                        | -                          | 182,595               |
| Cash and cash equivalents (pension)                                    | 3,880,847                      | -                          | 3,880,847             |
| Investments (pension)                                                  | 97,846,589                     | -                          | 97,846,589            |
|                                                                        | <b>\$ 147,707,368</b>          | <b>\$ 12,781,770</b>       | <b>\$ 160,489,138</b> |
| <b>Deposits and Investments:</b>                                       |                                |                            |                       |
| Bank deposits (checking accounts, savings accounts and CDs)            |                                |                            | \$ 2,687,222          |
| Investments in securities, mutual funds and similar vehicles (pool)    |                                |                            | 56,048,187            |
| Investments in securities, mutual funds and similar vehicles (pension) |                                |                            | 101,727,436           |
| Cash on hand                                                           |                                |                            | 26,293                |
| <b>Total</b>                                                           |                                |                            | <b>\$ 160,489,138</b> |

# CITY OF BATTLE CREEK, MICHIGAN

## Notes To Financial Statements

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*Custodial Credit Risk - Deposits.* For deposits, custodial credit risk is the risk, that in the event of a bank failure, the City's deposits may not be returned to the government. As of June 30, 2006, \$4,291,912 of the City's total bank balance of \$4,791,912 (total book balance was \$2,687,222) was exposed to custodial credit risk as it was uninsured and uncollateralized.

The City's investment policy does not specifically address this risk, although the City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

*Custodial Credit Risk - Investments.* Following is a summary of the City's investments as of June 30, 2006:

|                 |                             |
|-----------------|-----------------------------|
| U.S. treasuries | \$ 11,709,299               |
| U.S. agencies   | 42,513,114                  |
| Money market    | <u>1,825,774</u>            |
| <b>Total</b>    | <b><u>\$ 56,048,187</u></b> |

For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that investment securities be held in third-party safekeeping by a designated institution and that the safekeeping agent follow the procedure of delivery vs. payment. As of June 30, 2006, none of the City's investments, excluding the money market accounts which are not subject to custodial credit risk, were exposed to risk since the securities are held in the City's name by the counterparty.

*Credit Risk.* As of June 30, 2006, all of the City's investments in securities of U.S. agencies were rated AAA by Standard & Poor's. The City also held investments in U.S. treasuries and money market mutual funds, which are not rated. All of the City's investments comply with its policy regarding the types of investments it may hold.

# CITY OF BATTLE CREEK, MICHIGAN

## Notes To Financial Statements

*Concentration of Credit Risk.* At June 30, 2006, the investment portfolio of U.S. agencies was concentrated as follows:

| <u>Investment Type</u> | <u>Issuer</u>                          | <u>Portfolio</u> |
|------------------------|----------------------------------------|------------------|
| U.S. agencies          | Federal Home Loan Bank                 | 39.4%            |
|                        | Federal Home Loan Mortgage Corporation | 23.9%            |
|                        | Federal National Mortgage Association  | 21.8%            |
|                        | Federal Farm Credit Bank               | 15.0%            |

The City's investment policy does not address this risk.

*Interest Rate Risk.* As of June 30, 2006, maturities of the City's debt securities were as follows:

|                              | <u>Fair Value</u>    | <u>Investment Maturities (fair value by years)</u> |                      |                     |                         |
|------------------------------|----------------------|----------------------------------------------------|----------------------|---------------------|-------------------------|
|                              |                      | <u>Less<br/>Than 1</u>                             | <u>1-5</u>           | <u>6-10</u>         | <u>More<br/>Than 10</u> |
| U.S. treasuries              | \$ 11,709,299        | \$ 5,101,010                                       | \$ 6,608,289         | \$ -                | \$ -                    |
| U.S. agencies                | 42,513,114           | 11,655,062                                         | 23,654,757           | 5,771,725           | 1,431,570               |
| <b>Total debt securities</b> | <b>\$ 54,222,413</b> | <b>\$ 16,756,072</b>                               | <b>\$ 30,263,046</b> | <b>\$ 5,771,725</b> | <b>\$ 1,431,570</b>     |

Of the above balances, \$3,931,020 of U.S. agencies securities were callable.

The System's investment policy does not address interest rate risk.

# CITY OF BATTLE CREEK, MICHIGAN

## Notes To Financial Statements

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### 3-B. Deposits, Investments and Securities Lending – Pension Trust Fund

The Police and Fire Retirement System Trust Fund (the “pension trust fund” or the “System”) deposits and investments are maintained separately from the City’s pooled cash and investments, and are subject to separate investment policies and state statutes. Accordingly, the required disclosures for the System’s deposits and investments are presented separately.

**Deposits** - The System does not maintain any checking or other demand/time deposit accounts. Amounts reported as cash and cash equivalents in the statement of plan net assets are composed entirely of short-term investments in money market accounts.

**Investments** - The Michigan Public Employees Retirement Systems’ Investment Act, Public Act 314 of 1965, as amended, authorizes the System to invest in stocks, government and corporate securities, mortgages, real estate, and various other investment instruments, subject to certain limitations. The Retirement Board has the responsibility and authority to oversee the investment portfolio. Various professional investment managers are contracted to assist in managing the System’s assets. All investment decisions are subject to Michigan law and the investment policy established by the Retirement Board.

The System’s investments are held in a bank-administered trust fund. Following is a summary of the System’s investments as of June 30, 2006:

|                                                                     |                             |
|---------------------------------------------------------------------|-----------------------------|
| Investments at fair value, as determined<br>by quoted market price: |                             |
| U.S. treasuries                                                     | \$ 7,054,174                |
| U.S. agencies:                                                      |                             |
| Not on securities loan                                              | 7,249,438                   |
| On securities loan                                                  | 6,022,557                   |
| Domestic corporate securities:                                      |                             |
| Not on securities loan                                              | 15,357,993                  |
| On securities loan                                                  | 408,429                     |
| Domestic equities:                                                  |                             |
| Not on securities loan                                              | 32,969,753                  |
| On securities loan                                                  | 11,457,893                  |
| American depository receipts                                        | 14,251,688                  |
| International equities                                              | <u>3,074,664</u>            |
| <b>Total investments</b>                                            | <b><u>\$ 97,846,589</u></b> |

In addition to the above, the System has short-term investments of \$3,880,847 as of June 30, 2006 held entirely in money market funds.

# CITY OF BATTLE CREEK, MICHIGAN

## Notes To Financial Statements

*Credit Risk.* The System's investment policy provides that its investments in fixed income securities be limited to those rated BBB or better by a nationally recognized statistical rating organization. As of June 30, 2006, the System's investments in securities of U.S. agencies were all rated AAA by Standard & Poor's. The System's investments in corporate securities were rated by Standard & Poor's as follows:

|           |                             |
|-----------|-----------------------------|
| AAA       | \$ 2,113,923                |
| AA        | 2,232,314                   |
| A         | 8,481,988                   |
| BBB       | 2,711,354                   |
| BB        | 41,844                      |
| Not rated | <u>184,999</u>              |
|           | <u><u>\$ 15,766,422</u></u> |

*Custodial Credit Risk.* For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The System's investment policy requires that investment securities be held in trust by a third-party institution in the System's name. As such, although uninsured and unregistered, the System's investments are not exposed to custodial credit risk since the securities are held by the counterparty's trust department in the System's name.

Short-term investments in money market funds are not subject to custodial credit risk.

*Concentration of Credit Risk.* At June 30, 2006, the investment portfolio was concentrated as follows:

| <u>Investment Type</u> | <u>Issuer</u>                          | <u>% of Portfolio</u> |
|------------------------|----------------------------------------|-----------------------|
| U.S. agencies          | Federal National Mortgage Association  | 65.2%                 |
|                        | Federal Home Loan Mortgage Corporation | 31.0%                 |

The System's investment policy requires that the securities of any one company or government agency should not exceed 10% of the total fund and no more than 25% of the total fund should be invested in any one industry.

# CITY OF BATTLE CREEK, MICHIGAN

## Notes To Financial Statements

*Interest Rate Risk.* As of June 30, 2006, maturities of the System's debt securities were as follows:

|                               | Fair Value           | Investment Maturities (fair value by years) |                      |                     |                      |
|-------------------------------|----------------------|---------------------------------------------|----------------------|---------------------|----------------------|
|                               |                      | Less<br>Than 1                              | 1-5                  | 6-10                | More<br>Than 10      |
| U.S. treasuries               | \$ 7,054,174         | \$ -                                        | \$ 1,876,821         | \$ 4,112,728        | \$ 1,064,625         |
| U.S. agencies                 | 13,271,995           | -                                           | 2,938,316            | 1,403,932           | 8,929,747            |
| Domestic corporate securities | 15,766,422           | 2,291,465                                   | 8,553,990            | 1,606,667           | 3,314,300            |
| <b>Total debt securities</b>  | <b>\$ 36,092,591</b> | <b>\$ 2,291,465</b>                         | <b>\$ 13,369,127</b> | <b>\$ 7,123,327</b> | <b>\$ 13,308,672</b> |

Of the above balances, \$584,864 of U.S. agencies securities were callable.

The System's investment policy provides that the maximum maturity for any single fixed income security is ten years and that the weighted average portfolio maturity may not exceed eight years.

*Securities Lending.* A contract approved by the System's Board, permits the System to lend its securities to broker-dealers and banks (borrowers) for collateral that will be returned for the same securities in the future. The System's custodial bank manages the securities lending program and receives cash as collateral. The collateral securities cannot be pledged or sold by the System unless the borrower defaults. Collateral cash is initially pledged at 100 percent of the fair value of the securities lent, and may not fall below 100 percent during the term of the loan. There are no restrictions on the amount of securities that can be loaned. Securities on loan at year-end are classified in the preceding schedule of custodial credit risk according to the category for the collateral received on the securities lent. At year-end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System. The contract with the System's custodian requires it to indemnify the System if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the System for income distributions by the securities' issuers while the securities are on loan.

# CITY OF BATTLE CREEK, MICHIGAN

## Notes To Financial Statements

### 3-C. Receivables

Receivables in the governmental activities are 56.7 percent loans, 35.8 percent accounts receivables, 3.8 percent grants receivable, 2.3 percent accrued interest, and 1.4 percent special assessments. Business-type activities receivables are 25.7 percent due from customers, 9.4 percent grants, 3.3 percent special assessments, 59.7 percent loans, and 1.9 percent accrued interest.

General fund accounts receivable are reported net of an allowance for uncollectible accounts of \$131,571.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

|                                                                          | <u>Unavailable</u>   | <u>Unearned</u>   | <u>Total</u>         |
|--------------------------------------------------------------------------|----------------------|-------------------|----------------------|
| Land contract payments not yet due<br>(general fund)                     | \$ 7,484,344         | \$ -              | \$ 7,484,344         |
| Community development loans not yet due<br>(special revenue funds)       | 2,866,733            | -                 | 2,866,733            |
| Other loans not yet due (general fund)                                   | 19,000               | -                 | 19,000               |
| Special assessments not yet due<br>(special revenue and permanent funds) | 220,737              | -                 | 220,737              |
| Customer deposits for future services/events<br>(special revenue funds)  | -                    | 17,475            | 17,475               |
| Payments received in advance                                             | -                    | 271,855           | 271,855              |
| Grant drawdowns prior to meeting all<br>eligibility requirements         | -                    | 304,768           | 304,768              |
|                                                                          | <u>\$ 10,590,814</u> | <u>\$ 594,098</u> | <u>\$ 11,184,912</u> |

# CITY OF BATTLE CREEK, MICHIGAN

## Notes To Financial Statements

### 3-D. Capital Assets

Capital assets activity for the year ended June 30, 2006, was as follows:

#### Primary government

|                                                     | Beginning<br>Balance  | Increases             | Decreases          | Ending<br>Balance     |
|-----------------------------------------------------|-----------------------|-----------------------|--------------------|-----------------------|
| <b>Governmental activities</b>                      |                       |                       |                    |                       |
| Capital assets, not being depreciated - Land        | \$ 354,709            | \$ 16,385             | \$ -               | \$ 371,094            |
| Capital assets, being depreciated:                  |                       |                       |                    |                       |
| Land improvements                                   | 6,671,114             | 708,906               | -                  | 7,380,020             |
| Buildings                                           | 49,068,312            | 790,950               | (7,801)            | 49,851,461            |
| Vehicles                                            | 6,847,432             | 798,439               | (42,396)           | 7,603,475             |
| Equipment                                           | 19,871,089            | 3,060,761             | (225,224)          | 22,706,626            |
| Infrastructure                                      | 246,102,654           | 6,017,658             | -                  | 252,120,312           |
| Total capital assets being depreciated              | 328,560,601           | 11,376,714            | (275,421)          | 339,661,894           |
| Less accumulated depreciation for:                  |                       |                       |                    |                       |
| Land improvements                                   | (2,238,695)           | (151,914)             | -                  | (2,390,609)           |
| Buildings                                           | (15,634,772)          | (993,893)             | 7,801              | (16,620,864)          |
| Vehicles                                            | (4,090,967)           | (677,541)             | 42,396             | (4,726,112)           |
| Equipment                                           | (17,238,430)          | (741,987)             | 225,224            | (17,755,193)          |
| Infrastructure                                      | (59,493,571)          | (5,042,406)           | -                  | (64,535,977)          |
| Total accumulated depreciation                      | (98,696,435)          | (7,607,741)           | 275,421            | (106,028,755)         |
| Total capital assets, being depreciated, net        | 229,864,166           | 3,768,973             | -                  | 233,633,139           |
| <b>Governmental activities capital assets, net</b>  | <b>\$ 230,218,875</b> | <b>\$ 3,785,358</b>   | <b>\$ -</b>        | <b>\$ 234,004,233</b> |
| <b>Business-type activities</b>                     |                       |                       |                    |                       |
| Capital assets, not being depreciated - Land        | \$ 3,703,302          | \$ -                  | \$ -               | \$ 3,703,302          |
| Capital assets, being depreciated:                  |                       |                       |                    |                       |
| Land improvements                                   | 6,923,791             | 41,545                | -                  | 6,965,336             |
| Buildings                                           | 63,656,058            | 329,984               | (3,357)            | 63,982,685            |
| Vehicles                                            | 7,712,438             | -                     | (2,992,014)        | 4,720,424             |
| Equipment                                           | 16,623,017            | 560,339               | (545,890)          | 16,637,466            |
| Systems                                             | 157,069,415           | 2,427,092             | -                  | 159,496,507           |
| Total capital assets being depreciated              | 251,984,719           | 3,358,960             | (3,541,261)        | 251,802,418           |
| Less accumulated depreciation for:                  |                       |                       |                    |                       |
| Land improvements                                   | (3,552,681)           | (209,114)             | -                  | (3,761,795)           |
| Buildings                                           | (35,593,967)          | (1,705,852)           | 3,357              | (37,296,462)          |
| Vehicles                                            | (6,768,032)           | (196,698)             | 2,972,392          | (3,992,338)           |
| Equipment                                           | (10,780,001)          | (798,681)             | 545,890            | (11,032,792)          |
| Systems                                             | (69,246,613)          | (4,932,329)           | -                  | (74,178,942)          |
| Total accumulated depreciation                      | (125,941,294)         | (7,842,674)           | 3,521,639          | (130,262,329)         |
| Total capital assets, being depreciated, net        | 126,043,425           | (4,483,714)           | (19,622)           | 121,540,089           |
| <b>Business-type activities capital assets, net</b> | <b>\$ 129,746,727</b> | <b>\$ (4,483,714)</b> | <b>\$ (19,622)</b> | <b>\$ 125,243,391</b> |



# CITY OF BATTLE CREEK, MICHIGAN

## Notes To Financial Statements

Depreciation expense was charged to functions/programs of the primary government as follows:

|                                                                                                                                        |                            |
|----------------------------------------------------------------------------------------------------------------------------------------|----------------------------|
| Governmental activities:                                                                                                               |                            |
| General government                                                                                                                     | \$ 59,545                  |
| Public safety                                                                                                                          | 521,239                    |
| Public works, including depreciation of general infrastructure assets                                                                  | 5,341,576                  |
| Parks and recreation                                                                                                                   | 855,680                    |
| Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets | 829,701                    |
| <b>Total depreciation expense - governmental activities</b>                                                                            | <b><u>\$ 7,607,741</u></b> |
| Business-type activities:                                                                                                              |                            |
| Wastewater                                                                                                                             | \$ 4,660,150               |
| Water                                                                                                                                  | 1,707,172                  |
| Public transit                                                                                                                         | 335,911                    |
| Solid waste collection                                                                                                                 | 742                        |
| Airport                                                                                                                                | 620,302                    |
| Golf course                                                                                                                            | 127,019                    |
| Parking                                                                                                                                | 352,834                    |
| Economic development                                                                                                                   | 38,544                     |
| <b>Total depreciation expense - business-type activities</b>                                                                           | <b><u>\$ 7,842,674</u></b> |

### **Discretely presented component units**

Activity for the TIFA for the year ended June 30, 2006, was as follows:

|                                                    | <b>Beginning<br/>Balance</b> | <b>Increases</b>          | <b>Decreases</b>   | <b>Ending<br/>Balance</b>   |
|----------------------------------------------------|------------------------------|---------------------------|--------------------|-----------------------------|
| Capital assets, not being depreciated - Land       | \$ 11,679,397                | \$ -                      | \$ -               | \$ 11,679,397               |
| Capital assets, being depreciated:                 |                              |                           |                    |                             |
| Land improvements                                  | 587,500                      | -                         | -                  | 587,500                     |
| Buildings                                          | 278,190                      | -                         | -                  | 278,190                     |
| Equipment                                          | 302,712                      | -                         | -                  | 302,712                     |
| Total capital assets being depreciated             | <u>1,168,402</u>             | <u>-</u>                  | <u>-</u>           | <u>1,168,402</u>            |
| Less accumulated depreciation for:                 |                              |                           |                    |                             |
| Land improvements                                  | (129,250)                    | (11,750)                  | -                  | (141,000)                   |
| Buildings                                          | (122,406)                    | (11,128)                  | -                  | (133,534)                   |
| Equipment                                          | (302,712)                    | -                         | -                  | (302,712)                   |
| Total accumulated depreciation                     | <u>(554,368)</u>             | <u>(22,878)</u>           | <u>-</u>           | <u>(577,246)</u>            |
| Total capital assets, being depreciated, net       | <u>614,034</u>               | <u>(22,878)</u>           | <u>-</u>           | <u>591,156</u>              |
| <b>Governmental activities capital assets, net</b> | <b><u>\$ 12,293,431</u></b>  | <b><u>\$ (22,878)</u></b> | <b><u>\$ -</u></b> | <b><u>\$ 12,270,553</u></b> |

# CITY OF BATTLE CREEK, MICHIGAN

## Notes To Financial Statements

### 3-E. Payables

Payables in the governmental activities are 33.5 percent vendors, 46.0 percent claims and 20.5 percent accrued payroll and compensated absences. Business-type activities payables are 19.9 percent accrued payroll and compensated absences, 76.2 percent vendors, and 3.9 percent deposits.

### 3-F. Interfund Receivables, Payables and Transfers

At June 30, 2006, the following interfund balances were payable to the General Fund:

|                             |                            |
|-----------------------------|----------------------------|
| Community development fund  | \$ 181,585                 |
| Nonmajor governmental funds | 182,306                    |
| Nonmajor enterprise funds   | <u>2,852,214</u>           |
|                             | <u><u>\$ 3,216,105</u></u> |

The above balances generally resulted from a time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Also, certain amounts are reported as internal balances in the statement of net assets relative to the elimination of Internal Service Funds.

For the year then ended, interfund transfers consisted of the following:

| <u>Transfer out:</u>        | <u>Transfer in:</u> |                                  |                                          |                                |                                       | <u>Total</u>         |
|-----------------------------|---------------------|----------------------------------|------------------------------------------|--------------------------------|---------------------------------------|----------------------|
|                             | <u>General</u>      | <u>Nonmajor<br/>Governmental</u> | <u>Water and<br/>Wastewater<br/>Fund</u> | <u>Nonmajor<br/>Enterprise</u> | <u>Internal<br/>Service<br/>Funds</u> |                      |
| General fund                | \$ -                | \$ 5,522,742                     | \$ -                                     | \$ 1,016,094                   | \$ 238,067                            | \$ 6,776,903         |
| Community development fund  | -                   | -                                | -                                        | -                              | 2,250                                 | 2,250                |
| Nonmajor governmental funds | 46,244              | 2,269,161                        | -                                        | 261,016                        | 4,080                                 | 2,580,501            |
| Water and wastewater fund   | -                   | 27,294                           | 180,900                                  | -                              | 280,811                               | 489,005              |
| Airport fund                | -                   | -                                | -                                        | -                              | 5,875                                 | 5,875                |
| Nonmajor enterprise funds   | -                   | 251,980                          | 3,000                                    | -                              | 15,670                                | 270,650              |
| Internal service funds      | -                   | 778,669                          | -                                        | -                              | 9,920                                 | 788,589              |
|                             | <u>\$ 46,244</u>    | <u>\$ 8,849,846</u>              | <u>\$ 183,900</u>                        | <u>\$ 1,277,110</u>            | <u>\$ 556,673</u>                     | <u>\$ 10,913,773</u> |

# CITY OF BATTLE CREEK, MICHIGAN

## Notes To Financial Statements

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Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

### 3-G. Long-term Debt

*General obligation bonds.* The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. The original amount of general obligation bonds issued in prior years for the items listed below was \$33,675,000 for the primary government and \$3,940,000 for the discretely presented component units. During the year a limited tax bond was issued for \$3,819,000.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds are issued as 10 to 20-year serial bonds with varying amounts of principal maturing each year. General obligation bonds currently outstanding are as follows:

| <u>Purpose</u>                              | <u>Interest Rates</u> | <u>Amount</u>              |
|---------------------------------------------|-----------------------|----------------------------|
| <b>Governmental activities</b>              |                       |                            |
| 1997 building authority refunding           | 4.95% - 5.13%         | \$10,135,000               |
| 2002 building authority limited tax         | 4.50% - 4.75%         | 8,570,000                  |
| 2003 transportation fund bonds              | 2.00% - 3.25%         | 2,205,000                  |
| 2006 dispatch equipment                     | 3.64%                 | <u>3,819,000</u>           |
|                                             |                       | <b><u>\$24,729,000</u></b> |
| <b>Business-type activities</b>             |                       |                            |
| 1998 building authority - golf course       | 4.20% - 4.50%         | \$ 2,875,000               |
| 1999 building authority refunding - airport | 4.25% - 4.70%         | <u>1,320,000</u>           |
|                                             |                       | <b><u>\$ 4,195,000</u></b> |
| <b>Discretely presented component units</b> |                       |                            |
| 2004 downtown development                   | 5.00%                 | <b><u>\$ 2,250,000</u></b> |

# CITY OF BATTLE CREEK, MICHIGAN

## Notes To Financial Statements

Annual debt service requirements to maturity for general obligation bonds are as follows:

|           | <u>Governmental</u>         |                            | <u>Business-type</u>       |                            | <u>Component Units</u>     |                          |
|-----------|-----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|--------------------------|
|           | <u>Principal</u>            | <u>Interest</u>            | <u>Principal</u>           | <u>Interest</u>            | <u>Principal</u>           | <u>Interest</u>          |
| 2007      | \$ 1,869,000                | \$ 1,023,099               | \$ 335,000                 | \$ 185,238                 | \$ 330,000                 | \$ 103,885               |
| 2008      | 1,930,000                   | 940,992                    | 350,000                    | 171,070                    | 345,000                    | 87,010                   |
| 2009      | 2,015,000                   | 854,748                    | 360,000                    | 156,165                    | 365,000                    | 69,443                   |
| 2010      | 2,105,000                   | 762,221                    | 385,000                    | 140,625                    | 385,000                    | 50,875                   |
| 2011      | 2,210,000                   | 663,155                    | 400,000                    | 123,780                    | 400,000                    | 31,250                   |
| 2012-2016 | 9,065,000                   | 2,444,341                  | 1,190,000                  | 405,315                    | 425,000                    | 10,625                   |
| 2017-2021 | 4,785,000                   | 766,225                    | 1,175,000                  | 163,125                    | -                          | -                        |
| 2022      | 750,000                     | 35,625                     | -                          | -                          | -                          | -                        |
|           | <u><u>\$ 24,729,000</u></u> | <u><u>\$ 7,490,405</u></u> | <u><u>\$ 4,195,000</u></u> | <u><u>\$ 1,345,318</u></u> | <u><u>\$ 2,250,000</u></u> | <u><u>\$ 353,088</u></u> |

*Revenue bonds.* The City and its discretely presented component units also issue bonds where the income derived from the acquired or constructed assets is pledged to pay debt service. The original amount of revenue bonds issued in prior years for the items listed below was \$23,940,000 for the primary government and \$64,305,000 for the component units. During the prior year, no new revenue refunding bonds were issued. Revenue bonds outstanding at year-end are as follows:

| <u>Purpose</u>                                     | <u>Interest Rates</u> | <u>Amount</u>               |
|----------------------------------------------------|-----------------------|-----------------------------|
| <b>Business-type activities</b>                    |                       |                             |
| 2001 water and wastewater system                   | 4.00% - 4.63%         | \$ 8,850,000                |
| 2003 water and wastewater refunding                | 2.00% - 5.00%         | 10,375,000                  |
| 2004 water supply system refunding                 | 2.00% - 3.50%         | <u>2,660,000</u>            |
|                                                    |                       | <b><u>\$ 21,885,000</u></b> |
| <b>Discretely presented component units</b>        |                       |                             |
| 1997 development refunding                         | 4.90% - 5.25%         | \$ 7,325,000                |
| 2004 development taxable adjustable rate refunding | Variable              | <u>53,790,000</u>           |
|                                                    |                       | <b><u>\$ 61,115,000</u></b> |

# CITY OF BATTLE CREEK, MICHIGAN

## Notes To Financial Statements

Revenue bond debt service requirements to maturity are as follows:

|           | <u>Business-type</u>        |                            | <u>Component Units</u>      |                            |
|-----------|-----------------------------|----------------------------|-----------------------------|----------------------------|
|           | <u>Principal</u>            | <u>Interest</u>            | <u>Principal</u>            | <u>Interest</u>            |
| 2007      | \$ 1,235,000                | \$ 905,741                 | \$ 675,000                  | \$ 3,059,364               |
| 2008      | 1,425,000                   | 865,498                    | 54,485,000                  | 2,775,661                  |
| 2009      | 1,465,000                   | 818,550                    | 730,000                     | 302,040                    |
| 2010      | 1,520,000                   | 767,082                    | 740,000                     | 265,540                    |
| 2011      | 1,575,000                   | 708,994                    | 775,000                     | 227,800                    |
| 2012-2016 | 9,115,000                   | 2,421,356                  | 3,710,000                   | 528,750                    |
| 2017-2021 | 4,795,000                   | 599,456                    | -                           | -                          |
| 2022      | 755,000                     | 17,459                     | -                           | -                          |
|           | <u><u>\$ 21,885,000</u></u> | <u><u>\$ 7,104,136</u></u> | <u><u>\$ 61,115,000</u></u> | <u><u>\$ 7,159,155</u></u> |

*Installment Obligations.* The government has entered into various long-term installment payment agreements. The original amount of installment obligations issued in prior years for the items listed below was \$1,290,000 for the primary government and \$8,690,000 for the discretely presented component unit. No new installment obligations were entered into during the current year. Installment obligations outstanding at year-end are as follows:

| <u>Purpose</u>                             | <u>Interest Rates</u> | <u>Amount</u>             |
|--------------------------------------------|-----------------------|---------------------------|
| <b>Governmental activities</b>             |                       |                           |
| 1996 fire fighting apparatus contract      | 5.10%                 | \$ 35,000                 |
| 1998 fire fighting equipment contract      | 3.65%                 | <u>345,000</u>            |
|                                            |                       | <u><b>\$ 380,000</b></u>  |
| <b>Discretely presented component unit</b> |                       |                           |
| 1992 land contract                         | 9.00%                 | <u><b>\$4,270,407</b></u> |

# CITY OF BATTLE CREEK, MICHIGAN

## Notes To Financial Statements

Annual debt service requirements to maturity for installment obligations are as follows:

|      | <u>Governmental Activities</u> |                         | <u>Component Unit</u>      |                            |
|------|--------------------------------|-------------------------|----------------------------|----------------------------|
|      | <u>Principal</u>               | <u>Interest</u>         | <u>Principal</u>           | <u>Interest</u>            |
| 2007 | \$ 145,000                     | \$ 16,600               | \$ 567,622                 | \$ 431,204                 |
| 2008 | 115,000                        | 10,813                  | 618,708                    | 384,337                    |
| 2009 | 120,000                        | 5,580                   | 674,392                    | 333,251                    |
| 2010 | -                              | -                       | 735,088                    | 277,567                    |
| 2011 | -                              | -                       | 801,245                    | 216,872                    |
| 2012 | -                              | -                       | 873,352                    | 229,315                    |
|      | <u><u>\$ 380,000</u></u>       | <u><u>\$ 32,993</u></u> | <u><u>\$ 4,270,407</u></u> | <u><u>\$ 1,872,546</u></u> |

*Capital Lease.* The government entered into four lease agreements for airport snow removal equipment. The original amount of the lease obligations and the gross amount of the assets acquired was \$1,296,024. Capital leases outstanding at year-end amounted to \$1,090,948.

Annual debt service requirements to maturity for the capital lease are as follows:

|           | <u>Principal</u>           | <u>Interest</u>          |
|-----------|----------------------------|--------------------------|
| 2007      | \$ 116,404                 | \$ 51,642                |
| 2008      | 121,874                    | 46,172                   |
| 2009      | 127,602                    | 40,444                   |
| 2010      | 133,599                    | 34,447                   |
| 2011      | 139,879                    | 28,167                   |
| 2012-2016 | <u>451,590</u>             | <u>53,174</u>            |
|           | <u><u>\$ 1,090,948</u></u> | <u><u>\$ 254,046</u></u> |

*Loans Payable.* The City entered into a loan agreement with the Michigan Economic Development Corporation (MEDC) in the amount of \$900,000 for the development of a new cereal museum in the City. The loan is interest-free and will be repaid over a six-year period beginning July 1, 2006. The private foundation that operates the museum has agreed to repay the loan on behalf of the City; accordingly, a related receivable has been recorded in the government-wide financial statements.

In addition, the TIFA (a discretely presented component unit) has also borrowed from the MEDC to fund certain economic development activities in the Fort Custer Industrial Park. The original amount of these loans was \$1,689,670.

# CITY OF BATTLE CREEK, MICHIGAN

## Notes To Financial Statements

Loans outstanding at year-end are as follows:

| <u>Purpose</u>                             | <u>Interest Rates</u> | <u>Amount</u>             |
|--------------------------------------------|-----------------------|---------------------------|
| <b>Governmental activities</b>             |                       |                           |
| Cereal museum                              | 0.00%                 | <u>\$ 900,000</u>         |
| <b>Discretely presented component unit</b> |                       |                           |
| Core communities loan                      | 6.00%                 | \$ 813,504                |
| Aviation and eLearning SmartZone           | 5.00%                 | <u>300,634</u>            |
|                                            |                       | <u><b>\$1,114,138</b></u> |

Annual debt service requirements to maturity for the MEDC loans are as follows:

|           | <u>Governmental Activities</u> |                    | <u>Component Unit</u>      |                          |
|-----------|--------------------------------|--------------------|----------------------------|--------------------------|
|           | <u>Principal</u>               | <u>Interest</u>    | <u>Principal</u>           | <u>Interest</u>          |
| 2007      | \$ 25,000                      | \$ -               | \$ 204,106                 | \$ 62,565                |
| 2008      | 50,000                         | -                  | 214,964                    | 51,707                   |
| 2009      | 206,250                        | -                  | 64,723                     | 40,266                   |
| 2010      | 206,250                        | -                  | 68,694                     | 36,294                   |
| 2011      | 206,250                        | -                  | 72,909                     | 32,079                   |
| 2012-2016 | 206,250                        | -                  | 437,406                    | 87,536                   |
| 2017      | -                              | -                  | 51,336                     | 1,158                    |
|           | <u><b>\$ 900,000</b></u>       | <u><b>\$ -</b></u> | <u><b>\$ 1,114,138</b></u> | <u><b>\$ 311,605</b></u> |

*Interest Rate Swap.* During the year ended June 30, 2005, the City and DDA entered into a forward starting interest rate swap agreement (the “Swap”) to modify interest rates on future outstanding debt. Beginning May 1, 2008, the Swap will be used to hedge \$55,265,000 of the Downtown Development Taxable Adjustable Rate Refunding Bonds, Series 2004. The stated maturity date of the Swap is May 1, 2022. Under the terms of the Swap, the City/DDA will owe interest calculated at a fixed rate of 4.598% to the counterparty to the agreement, Goldman Sachs. In return, the counterparty will owe the City/DDA interest based on a variable rate equal to the Bond Market Association (BMA) index rate. Only the net difference in interest amounts will actually be exchanged between the parties. The City/DDA will continue to pay interest to the bondholders at the variable rate provided by the Bonds and, during the term of the Swap, will pay the difference between the fixed rate on the Swap and the BMA index rate. To further hedge its position, the City/DDA purchased an interest rate cap and floor instrument from Merrill Lynch Capital Services to protect against significant fluctuations in market interest rates.

# CITY OF BATTLE CREEK, MICHIGAN

## Notes To Financial Statements

*Changes in Long-Term Debt.* Long-term liability activity for the year ended June 30, 2006, was as follows:

|                                  | Beginning<br>Balance        | Additions                  | Reductions                   | Ending<br>Balance           | Due Within<br>One Year     |
|----------------------------------|-----------------------------|----------------------------|------------------------------|-----------------------------|----------------------------|
| <b><u>Primary Government</u></b> |                             |                            |                              |                             |                            |
| <b>Governmental activities</b>   |                             |                            |                              |                             |                            |
| General obligation bonds         | \$ 22,375,000               | \$ 3,819,000               | \$ (1,465,000)               | \$ 24,729,000               | \$ 1,869,000               |
| Special assessment bonds         | 25,000                      | -                          | (25,000)                     | -                           | -                          |
| Installment contracts            | 520,000                     | -                          | (140,000)                    | 380,000                     | 145,000                    |
| Loans payable                    | 900,000                     | -                          | -                            | 900,000                     | 25,000                     |
| Compensated absences             | 3,280,932                   | 2,559,158                  | (2,285,834)                  | 3,554,256                   | 348,242                    |
| Add (deduct) deferred amounts:   |                             |                            |                              |                             |                            |
| For issuance costs               | (214,135)                   | -                          | 15,377                       | (198,758)                   | -                          |
| For issuance premiums            | 40,027                      | -                          | (5,003)                      | 35,024                      | -                          |
|                                  | <b><u>\$ 26,926,824</u></b> | <b><u>\$ 6,378,158</u></b> | <b><u>\$ (3,905,460)</u></b> | <b><u>\$ 29,399,522</u></b> | <b><u>\$ 2,387,242</u></b> |
| <b>Business-type activities</b>  |                             |                            |                              |                             |                            |
| General obligation bonds         | \$ 4,515,000                | \$ -                       | \$ (320,000)                 | \$ 4,195,000                | \$ 335,000                 |
| Revenue bonds                    | 23,085,000                  | -                          | (1,200,000)                  | 21,885,000                  | 1,235,000                  |
| Capital leases                   | 848,586                     | 328,523                    | (86,161)                     | 1,090,948                   | 116,404                    |
| Add (deduct) deferred amounts:   |                             |                            |                              |                             |                            |
| For issuance costs               | (221,574)                   | -                          | 26,090                       | (195,484)                   | -                          |
| For issuance discounts           | (436,111)                   | -                          | 60,351                       | (375,760)                   | -                          |
| For issuance premiums            | 608,896                     | -                          | (58,890)                     | 550,006                     | -                          |
| On refunding                     | (866,155)                   | -                          | 86,400                       | (779,755)                   | -                          |
|                                  | <b><u>\$ 27,533,642</u></b> | <b><u>\$ 328,523</u></b>   | <b><u>\$ (1,492,210)</u></b> | <b><u>\$ 26,369,955</u></b> | <b><u>\$ 1,686,404</u></b> |
| <b><u>Component Units</u></b>    |                             |                            |                              |                             |                            |
| <b>DDA</b>                       |                             |                            |                              |                             |                            |
| Revenue bonds                    | \$ 53,790,000               | \$ -                       | \$ -                         | \$ 53,790,000               | \$ -                       |
| Add (deduct) deferred amounts:   |                             |                            |                              |                             |                            |
| For issuance costs               | (1,272,435)                 | -                          | 84,829                       | (1,187,606)                 | -                          |
| On refunding                     | (3,855,690)                 | -                          | 257,046                      | (3,598,644)                 | -                          |
|                                  | <b><u>\$ 48,661,875</u></b> | <b><u>\$ -</u></b>         | <b><u>\$ 341,875</u></b>     | <b><u>\$ 49,003,750</u></b> | <b><u>\$ -</u></b>         |
| <b>TIFA</b>                      |                             |                            |                              |                             |                            |
| General obligation bonds         | \$ 2,560,000                | \$ -                       | \$ (310,000)                 | \$ 2,250,000                | \$ 330,000                 |
| Revenue bonds                    | 7,995,000                   | -                          | (670,000)                    | 7,325,000                   | 675,000                    |
| Land contracts                   | 4,791,162                   | -                          | (520,755)                    | 4,270,407                   | 567,622                    |
| Loans payable                    | 1,307,938                   | -                          | (193,800)                    | 1,114,138                   | 204,106                    |
|                                  | <b><u>\$ 16,654,100</u></b> | <b><u>\$ -</u></b>         | <b><u>\$ (1,694,555)</u></b> | <b><u>\$ 14,959,545</u></b> | <b><u>\$ 1,776,728</u></b> |

For the governmental activities, compensated absences are generally liquidated by the general fund.



# CITY OF BATTLE CREEK, MICHIGAN

## Notes To Financial Statements

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### 3-H. Segment Information – Enterprise Funds

The government issued revenue bonds to finance certain improvements to its water and wastewater system. Because the Water and Wastewater Fund, an individual fund that accounts entirely for the government's water and wastewater activities, is a segment and is reported as a major fund in the fund financial statements, segment disclosures herein are not required.

### 3-I. Endowments

**Youth Center Endowment Permanent Trust Fund.** For the year ended June 30, 2006, the net appreciation on investments of donor-restricted endowments was \$34,142. Under the terms of the endowment, and consistent with State statutes, the City is authorized based on a total-return policy to spend the net appreciation for the benefit of the youth center. At year-end, accumulated available net appreciation of \$294,112 is reported in unrestricted net assets; the non-expendable endowment balance is \$1,500,000.

**Kellogg Arena Endowment Permanent Trust Fund.** For the year ended June 30, 2006, the net appreciation on investments of donor-restricted endowments was \$13,741. Under the terms of the endowment, and consistent with State statutes, the City is authorized based on a total-return policy to spend the net appreciation for the benefit of the Kellogg Arena. At year-end, accumulated available net appreciation of \$14,508 is reported in unrestricted net assets; the non-expendable endowment balance is \$623,533.

## NOTE 4 – OTHER INFORMATION

### 4-A. Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries, as well as medical, dental and death benefits provided to employees. The City has purchased commercial insurance for employee dental and life coverages, certain property and inland marine exposures, airport liability, liquor liability, and emergency medical treatment. The City's workers' compensation exposure is handled on a self-funded basis using a third-party administrator, with excess insurance for claims greater than a self-insured retention (SIR) of \$650,000 per occurrence. As of July 1, 1986, the City's general and related liability insurance was allowed to expire; any occurrences prior to that date may be covered by liability policies previously in effect. The City now self-administers general liability and related exposures, utilizing excess liability insurance for losses greater than a SIR of \$1 million per occurrence and \$2.5 million in the aggregate, annually. The limits of the excess liability insurance have been as follows: \$15 million per occurrence effective September 1, 1999; \$5 million per occurrence effective October 1, 2002; then \$9 million per occurrence effective November 14, 2003.

# CITY OF BATTLE CREEK, MICHIGAN

## Notes To Financial Statements

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Settled claims related to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Effective October 1, 2003, the City converted from a premium-based policy for employee medical coverage to a self-funded plan, with specific stop-loss insurance that limits claim expense to \$50,000 per contract (i.e., employee and dependents), annually. Aggregate stop-loss insurance limits annual losses to 120 percent of expected claims.

The City estimates its self-insured liability for workers' compensation, medical and comprehensive general liability claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are prepared by the City's Risk Management Department and recorded in the Self-Insurance Internal Service Fund. Changes in the estimated liability for the fiscal years ended June 30 were as follows:

|                                                              | <u>2006</u>                | <u>2005</u>                |
|--------------------------------------------------------------|----------------------------|----------------------------|
| Estimated liability, beginning of year                       | \$ 5,085,141               | \$ 4,169,460               |
| Estimated claims incurred, including changes<br>in estimates | 6,867,064                  | 10,284,947                 |
| Claim payments                                               | <u>(7,671,631)</u>         | <u>(9,369,266)</u>         |
| <b>Estimated liability, end of year</b>                      | <b><u>\$ 4,280,574</u></b> | <b><u>\$ 5,085,141</u></b> |

### 4-B. Property Taxes

The government's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through August 31; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Calhoun County. Assessed values, as established annually by the government and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value. The taxable value of real and personal property in the City for the 2005 levy, including industrial facilities and neighborhood enterprise zone properties, but net of renaissance zones, was \$1,445,373,643. The government's general operating tax rate for fiscal 2005-06 was 11.230 mills with an additional 2.691 mills for police and fire pension.

Property taxes for the DDA, LDDA, TIFA and BRA are derived from tax increment financing agreements with the various applicable taxing authorities. Under these arrangements, the DDA, LDDA and TIFA receive the property taxes levied on the increment of current taxable values over the base year values on those properties located within the established tax increment financing district.

Property taxes are recognized in the fiscal year in which they are levied.

# CITY OF BATTLE CREEK, MICHIGAN

## Notes To Financial Statements

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### **4-C. Contingent Liabilities**

Amounts received or receivable from grantor agencies are subject to audit and potential adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the government's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

### **4-D. Postemployment Benefits**

The City provides health care benefits to certain full-time employees upon retirement, in accordance with labor agreements and/or the City Administrative Code, or in the case of police and fire personnel according to City Commission resolution. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with contributions required in varying amounts. The City purchases Medicare supplemental insurance for retirees eligible for Medicare.

*Police and Fire.* The obligation for police and fire personnel retiree health care is advance-funded through the Police and Fire Retirement System. At June 30, 2006, there were 199 active employees and 202 retirees eligible for benefits. During the year ended June 30, 2006, the City contributed \$649,931 to the Police and Fire Retirement System for retiree health care and the System paid \$1,679,023 for retiree health care costs. At June 30, 2006, net assets held in trust for police and fire postemployment health care benefits were \$480,416. Actuarial data for the health care benefits portion of the Police and Fire Retirement System is not presently available.

*Other City Employees.* For all other eligible City employees, the City contributes a maximum of \$200 per month towards the purchase of retiree health care. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due. During the year, 144 retirees were eligible, resulting in expenditures of \$237,238.

# CITY OF BATTLE CREEK, MICHIGAN

## Notes To Financial Statements

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### 4-E. Defined Benefit Pension Plans

#### Police and Fire Retirement System

The City of Battle Creek, Michigan Police and Fire Retirement System (the “System”) is a single-employer defined benefit pension plan that provides retirement, health, disability and death benefits to all full-time police and fire personnel of the City. The System is administered by the Retirement Board of the City of Battle Creek, Michigan Police and Fire Retirement System. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the System at 10 North Division Street, Battle Creek, MI 49014.

The financial statements of the System are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. The City’s contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans.

Plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair values. Administrative costs are financed through investment earnings.

Plan members are required to contribute between 7.5% to 10% of their annual covered wages to the System for pension benefits, depending on the bargaining unit. The City is required to contribute such additional amounts as necessary, based on actuarial determinations, to provide assets sufficient to pay for member benefits. The City’s pension contribution to the System for the year ended June 30, 2006 amounted to 18.91% of annual covered payroll, an additional 5.0% of annual covered payroll was contributed by the City for retiree healthcare benefits (*see Note 4-D.*).

Plan benefit provisions were established and may be amended under the authority of City Ordinances. Contribution requirements were established and may be amended subject to collective bargaining agreements and approval by the System Retirement Board and City Commission.

The annual required contribution (ARC) for the year ended June 30, 2006 for pension was \$2,458,298. The ARC was made by the City. There was no net pension obligation at the beginning nor the end of the fiscal year.

# CITY OF BATTLE CREEK, MICHIGAN

## Notes To Financial Statements

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The annual required contribution was determined as part of an actuarial valuation of the System as of June 30, 2004 using the entry age actuarial method. The actuarial assumptions included: (1) a rate of return on investments of 7.0% per year compounded annually; (2) projected salary increases of 4.5% per year compounded annually, attributable to inflation; (3) additional projected salary increases ranging from 0.0% to 4.0% per year, depending on age and service, attributable to seniority/merit; and (4) the assumption that pension benefits will not increase after retirement. The unfunded actuarial accrual liability is being amortized as a level percentage of payroll over a period of 10 years. The actuarial value of assets is determined using techniques that smooth the effects of short-term market volatility over a five-year period. The date of the latest actuarial valuation was June 30, 2005.

### **Three-Year Trend Information** *(pension only)*

| <b><u>Years Ended<br/>June 30,</u></b> | <b><u>Annual<br/>Pension<br/>Cost (APC)</u></b> | <b><u>Percentage<br/>Contributed</u></b> | <b><u>Net Pension<br/>Obligation</u></b> |
|----------------------------------------|-------------------------------------------------|------------------------------------------|------------------------------------------|
| 2004                                   | \$ 1,268,053                                    | 100%                                     | \$ -                                     |
| 2005                                   | 1,824,879                                       | 100                                      | -                                        |
| 2006                                   | 2,458,298                                       | 100                                      | -                                        |

GASB Statement 25 required supplementary information is presented after the notes to the financial statements section of this report.

### **Municipal Employees Retirement System of Michigan**

The City also participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the Retirement Board of MERS. The Plan provides retirement and disability benefits, annual cost of living adjustments, and death benefits to Plan members and beneficiaries. The MERS Retirement Board establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917, or by calling (800) 767-6377.

# CITY OF BATTLE CREEK, MICHIGAN

## Notes To Financial Statements

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The City is required to contribute at an actuarially determined rate; the current rate is 14.30% of annual covered payroll. City employees are required to contribute 0.0% to 2.5% of their annual covered payroll, depending on the applicable bargaining unit. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the City, subject to collective bargaining agreements and depending on the MERS contribution program adopted by the City.

For the year ended June 30, 2006, the City's annual pension cost of \$2,865,291 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 8.0%; (b) projected salary increase of 4.5% per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0% to 8.4% per year, depending on age, attributable to seniority/merit.

The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2005, the date of the latest actuarial valuation, was 25 years.

### **Three-Year Trend Information**

| <b><u>Annual<br/>Years Ended<br/>June 30,</u></b> | <b><u>Pension<br/>Cost (APC)</u></b> | <b><u>Percentage<br/>Contributed</u></b> | <b><u>Net Pension<br/>Obligation</u></b> |
|---------------------------------------------------|--------------------------------------|------------------------------------------|------------------------------------------|
| 2004                                              | \$ 2,405,954                         | 100%                                     | \$ -                                     |
| 2005                                              | 2,503,415                            | 100                                      | -                                        |
| 2006                                              | 2,865,291                            | 100                                      | -                                        |

# CITY OF BATTLE CREEK, MICHIGAN

## Notes To Financial Statements

### Schedule of Funding Progress

| <b>Actuarial<br/>Valuation<br/>Date</b> | <b>(a)<br/>Actuarial<br/>Value of<br/>Assets</b> | <b>(b)<br/>Actuarial<br/>Accrued<br/>Liability<br/>(AAL)<br/>Entry Age</b> | <b>(b-a)<br/>Unfunded<br/>AAL<br/>(UAAL)</b> | <b>Funded<br/>Ratio<br/>Total</b> | <b>(c)<br/>Covered<br/>Payroll</b> | <b>((b-a)/c)<br/>UAAL as a<br/>Percentage of<br/>Covered Payroll</b> |
|-----------------------------------------|--------------------------------------------------|----------------------------------------------------------------------------|----------------------------------------------|-----------------------------------|------------------------------------|----------------------------------------------------------------------|
| 12/31/03                                | \$65,724,348                                     | \$86,671,937                                                               | \$20,947,589                                 | 76%                               | \$18,909,696                       | 111%                                                                 |
| 12/31/04                                | 69,677,870                                       | 92,602,174                                                                 | 22,924,304                                   | 75%                               | 18,588,796                         | 123%                                                                 |
| 12/31/05                                | 73,555,512                                       | 98,161,300                                                                 | 24,605,788                                   | 75%                               | 18,925,044                         | 130%                                                                 |

#### 4.F Restatements

The beginning net assets of the W.K. Kellogg Airport enterprise fund and the Water and Wastewater System enterprise fund were increased and decreased, respectively, by \$221,249 for a prior year error in which assets were inappropriately capitalized in the Water and Wastewater System fund.

The beginning net assets of the governmental activities were increased by \$1,300,000 to properly state the amounts payable by the City under certain loans and to recognize receivables from third parties related thereto.

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## REQUIRED SUPPLEMENTARY INFORMATION



**CITY OF BATTLE CREEK, MICHIGAN**  
**Police and Fire Retirement System**  
**Required Supplementary Information**

**Schedule of Funding Progress - Pension Only**

| <b>Actuarial<br/>Valuation<br/>Date</b> | <b>Actuarial<br/>Value of<br/>Assets<br/>(A)</b> | <b>Actuarial<br/>Accrued<br/>Liability<br/>(AAL)<br/>(B)</b> | <b>Over (Under)<br/>Funded AAL<br/>(OAAL/UAAL)<br/>(A-B)</b> | <b>Funded<br/>Ratio<br/>(A/B)</b> | <b>Covered<br/>Payroll<br/>(C)</b> | <b>OAAL/UAAL<br/>as a % of<br/>Covered<br/>Payroll</b> |
|-----------------------------------------|--------------------------------------------------|--------------------------------------------------------------|--------------------------------------------------------------|-----------------------------------|------------------------------------|--------------------------------------------------------|
| 6/30/1996                               | \$ 65,885,237                                    | \$ 66,859,894                                                | \$ (974,657)                                                 | 98.5%                             | \$ 9,834,167                       | -9.9%                                                  |
| 6/30/1997                               | 72,134,308                                       | 71,456,325                                                   | 677,983                                                      | 100.9%                            | 10,039,322                         | 6.8%                                                   |
| 6/30/1998                               | 79,796,431                                       | 74,796,184                                                   | 5,000,247                                                    | 106.7%                            | 9,813,441                          | 51.0%                                                  |
| 6/30/1999                               | 87,617,793                                       | 78,285,848                                                   | 9,331,945                                                    | 111.9%                            | 9,749,682                          | 95.7%                                                  |
| 6/30/2000                               | 95,548,441                                       | 83,980,778                                                   | 11,567,663                                                   | 113.8%                            | 11,235,312                         | 103.0%                                                 |
| 6/30/2001                               | 101,190,705                                      | 87,909,496                                                   | 13,281,209                                                   | 115.1%                            | 11,615,098                         | 114.3%                                                 |
| 6/30/2002                               | 103,950,731                                      | 95,368,883                                                   | 8,581,848                                                    | 109.0%                            | 11,907,553                         | 72.1%                                                  |
| 6/30/2003                               | 103,655,770                                      | 100,346,606                                                  | 3,309,164                                                    | 103.3%                            | 11,855,130                         | 27.9%                                                  |
| 6/30/2004                               | 103,745,735                                      | 104,336,169                                                  | (590,434)                                                    | 99.4%                             | 12,114,360                         | -4.9%                                                  |
| 6/30/2005                               | 102,755,663                                      | 110,487,311                                                  | (7,731,648)                                                  | 93.0%                             | 12,085,192                         | -64.0%                                                 |

**Schedule of Employer Contributions - Pension Only**

| <b>Year Ended<br/>June 30</b> | <b>Annual Required<br/>Contributions</b> | <b>Percentage<br/>Contributed</b> |
|-------------------------------|------------------------------------------|-----------------------------------|
| 1997                          | \$ 1,672,926                             | 100%                              |
| 1998                          | 1,908,106                                | 100%                              |
| 1999                          | 1,337,217                                | 100%                              |
| 2000                          | 1,059,179                                | 100%                              |
| 2001                          | 732,366                                  | 100%                              |
| 2002                          | 622,566                                  | 100%                              |
| 2003                          | 468,005                                  | 100%                              |
| 2004                          | 1,268,053                                | 100%                              |
| 2005                          | 1,824,879                                | 100%                              |
| 2006                          | 2,458,298                                | 100%                              |

**COMBINING and INDIVIDUAL FUND FINANCIAL  
STATEMENTS and SCHEDULES**

**CITY OF BATTLE CREEK, MICHIGAN**  
**Combining Balance Sheet - Nonmajor Governmental Funds**  
**June 30, 2006**

|                                                       | <u>Special<br/>Revenue</u> | <u>Debt<br/>Service</u> | <u>Capital<br/>Projects</u> | <u>Permanent</u>    | <u>Totals</u>        |
|-------------------------------------------------------|----------------------------|-------------------------|-----------------------------|---------------------|----------------------|
| <b><u>ASSETS</u></b>                                  |                            |                         |                             |                     |                      |
| <b>Assets</b>                                         |                            |                         |                             |                     |                      |
| Pooled cash and investments                           | \$ 2,161,748               | \$ 1,047,113            | \$ 4,981,226                | \$ 3,469,242        | \$ 11,659,329        |
| Receivables:                                          |                            |                         |                             |                     |                      |
| Interest                                              | 26,994                     | 10,690                  | 40,755                      | 24,422              | 102,861              |
| Accounts                                              | 982,342                    | -                       | -                           | -                   | 982,342              |
| Special assessments                                   | -                          | 28,819                  | -                           | 218,372             | 247,191              |
| Grants                                                | 477,479                    | -                       | 16,173                      | -                   | 493,652              |
| Inventories                                           | 14,653                     | -                       | -                           | -                   | 14,653               |
| Prepaid items                                         | 2,724                      | -                       | -                           | -                   | 2,724                |
|                                                       | <hr/>                      | <hr/>                   | <hr/>                       | <hr/>               | <hr/>                |
| <b><u>TOTAL ASSETS</u></b>                            | <u>\$ 3,665,940</u>        | <u>\$ 1,086,622</u>     | <u>\$ 5,038,154</u>         | <u>\$ 3,712,036</u> | <u>\$ 13,502,752</u> |
| <b><u>LIABILITIES AND FUND BALANCES</u></b>           |                            |                         |                             |                     |                      |
| <b>Liabilities</b>                                    |                            |                         |                             |                     |                      |
| Accounts payable                                      | \$ 93,590                  | \$ 31,597               | \$ -                        | \$ -                | \$ 125,187           |
| Retentions, deposits and other liabilities            | 243,903                    | -                       | 28,030                      | -                   | 271,933              |
| Interfund payable                                     | 182,306                    | -                       | -                           | -                   | 182,306              |
| Deferred revenue                                      | 322,243                    | 2,365                   | -                           | 218,372             | 542,980              |
|                                                       | <hr/>                      | <hr/>                   | <hr/>                       | <hr/>               | <hr/>                |
| Total liabilities                                     | 842,042                    | 33,962                  | 28,030                      | 218,372             | 1,122,406            |
|                                                       | <hr/>                      | <hr/>                   | <hr/>                       | <hr/>               | <hr/>                |
| <b>Fund balances</b>                                  |                            |                         |                             |                     |                      |
| Reserved for inventories                              | 14,653                     | -                       | -                           | -                   | 14,653               |
| Reserved for prepaid items                            | 2,724                      | -                       | -                           | -                   | 2,724                |
| Reserved for encumbrances                             | 91,799                     | -                       | -                           | -                   | 91,799               |
| Reserved for endowment                                | -                          | -                       | -                           | 2,123,533           | 2,123,533            |
| Unreserved:                                           |                            |                         |                             |                     |                      |
| Designated for:                                       |                            |                         |                             |                     |                      |
| Future departmental appropriations                    | -                          | -                       | 671,617                     | -                   | 671,617              |
| Subsequent year expenditures                          | 816,554                    | -                       | -                           | -                   | 816,554              |
| Undesignated                                          | 1,898,168                  | 1,052,660               | 4,338,507                   | 1,370,131           | 8,659,466            |
|                                                       | <hr/>                      | <hr/>                   | <hr/>                       | <hr/>               | <hr/>                |
| Total fund balances                                   | 2,823,898                  | 1,052,660               | 5,010,124                   | 3,493,664           | 12,380,346           |
|                                                       | <hr/>                      | <hr/>                   | <hr/>                       | <hr/>               | <hr/>                |
| <b><u>TOTAL LIABILITIES<br/>AND FUND BALANCES</u></b> | <u>\$ 3,665,940</u>        | <u>\$ 1,086,622</u>     | <u>\$ 5,038,154</u>         | <u>\$ 3,712,036</u> | <u>\$ 13,502,752</u> |

**CITY OF BATTLE CREEK, MICHIGAN**  
**Combining Statement of Revenues, Expenditures and**  
**Changes in Fund Balances - Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2006**

|                                       | <u>Special<br/>Revenue</u> | <u>Debt<br/>Service</u> | <u>Capital<br/>Projects</u> | <u>Permanent</u>    | <u>Totals</u>        |
|---------------------------------------|----------------------------|-------------------------|-----------------------------|---------------------|----------------------|
| <b>Revenues</b>                       |                            |                         |                             |                     |                      |
| Taxes                                 | \$ -                       | \$ 6,515                | \$ -                        | \$ -                | \$ 6,515             |
| Intergovernmental                     | 8,345,803                  | -                       | 84,499                      | -                   | 8,430,302            |
| Charges for services                  | 2,323,903                  | -                       | -                           | -                   | 2,323,903            |
| Investment income                     | 41,751                     | 20,290                  | 18,867                      | 47,883              | 128,791              |
| Other                                 | 848,421                    | 1,367,217               | 400                         | 121,994             | 2,338,032            |
| Total revenues                        | <u>11,559,878</u>          | <u>1,394,022</u>        | <u>103,766</u>              | <u>169,877</u>      | <u>13,227,543</u>    |
| <b>Expenditures</b>                   |                            |                         |                             |                     |                      |
| Current expenditures:                 |                            |                         |                             |                     |                      |
| General government                    | 2,006,611                  | -                       | -                           | -                   | 2,006,611            |
| Public safety                         | 1,344,299                  | -                       | -                           | -                   | 1,344,299            |
| Highway and streets                   | 5,989,214                  | -                       | 4,771,620                   | -                   | 10,760,834           |
| Parks and recreation                  | 3,347,442                  | -                       | -                           | -                   | 3,347,442            |
| Community development                 | 246,658                    | -                       | -                           | -                   | 246,658              |
| Unallocated                           | -                          | -                       | -                           | 249,089             | 249,089              |
| Debt service:                         |                            |                         |                             |                     |                      |
| Principal                             | -                          | 1,490,000               | -                           | 140,000             | 1,630,000            |
| Interest                              | -                          | 1,032,957               | 37,456                      | 20,694              | 1,091,107            |
| Capital outlay                        | -                          | -                       | 1,199,315                   | -                   | 1,199,315            |
| Total expenditures                    | <u>12,934,224</u>          | <u>2,522,957</u>        | <u>6,008,391</u>            | <u>409,783</u>      | <u>21,875,355</u>    |
| Revenues over (under) expenditures    | <u>(1,374,346)</u>         | <u>(1,128,935)</u>      | <u>(5,904,625)</u>          | <u>(239,906)</u>    | <u>(8,647,812)</u>   |
| <b>Other financing sources (uses)</b> |                            |                         |                             |                     |                      |
| Bonds issued                          | -                          | -                       | 3,819,000                   | -                   | 3,819,000            |
| Transfers in                          | 2,583,169                  | 1,129,388               | 4,911,406                   | 225,883             | 8,849,846            |
| Transfers out                         | (1,692,774)                | -                       | (711,727)                   | (176,000)           | (2,580,501)          |
| Total other financing sources (uses)  | <u>890,395</u>             | <u>1,129,388</u>        | <u>8,018,679</u>            | <u>49,883</u>       | <u>10,088,345</u>    |
| Net change in fund balances           | <u>(483,951)</u>           | <u>453</u>              | <u>2,114,054</u>            | <u>(190,023)</u>    | <u>1,440,533</u>     |
| Fund balances, beginning of year      | <u>3,307,849</u>           | <u>1,052,207</u>        | <u>2,896,070</u>            | <u>3,683,687</u>    | <u>10,939,813</u>    |
| <b>Fund balances, end of year</b>     | <u>\$ 2,823,898</u>        | <u>\$ 1,052,660</u>     | <u>\$ 5,010,124</u>         | <u>\$ 3,493,664</u> | <u>\$ 12,380,346</u> |

**CITY OF BATTLE CREEK, MICHIGAN**  
**Combining Balance Sheet - Nonmajor Special Revenue Funds**  
**June 30, 2006**

|                                                   | <u>Major<br/>Street and<br/>Trunkline<br/>Maintenance</u> | <u>Local<br/>Street</u> | <u>Special<br/>Grants</u> | <u>HOME<br/>Program</u> |
|---------------------------------------------------|-----------------------------------------------------------|-------------------------|---------------------------|-------------------------|
| <b><u>ASSETS</u></b>                              |                                                           |                         |                           |                         |
| <b>Assets</b>                                     |                                                           |                         |                           |                         |
| Pooled cash and investments                       | \$ 921,910                                                | \$ -                    | \$ -                      | \$ -                    |
| Receivables:                                      |                                                           |                         |                           |                         |
| Interest                                          | 4,041                                                     | 16,879                  | -                         | -                       |
| Accounts                                          | 620,922                                                   | 168,299                 | -                         | -                       |
| Grants                                            | -                                                         | -                       | 430,251                   | 47,228                  |
| Inventories                                       | -                                                         | -                       | -                         | -                       |
| Prepaid items                                     | -                                                         | -                       | -                         | -                       |
|                                                   | <u>-</u>                                                  | <u>-</u>                | <u>-</u>                  | <u>-</u>                |
| <b><u>TOTAL ASSETS</u></b>                        | <u>\$ 1,546,873</u>                                       | <u>\$ 185,178</u>       | <u>\$ 430,251</u>         | <u>\$ 47,228</u>        |
| <b><u>LIABILITIES AND FUND BALANCES</u></b>       |                                                           |                         |                           |                         |
| <b>Liabilities</b>                                |                                                           |                         |                           |                         |
| Accounts payable                                  | \$ 6,673                                                  | \$ -                    | \$ -                      | \$ -                    |
| Retentions, deposits and other liabilities        | -                                                         | -                       | 2,360                     | -                       |
| Interfund payable                                 | -                                                         | 114,266                 | 20,812                    | 47,228                  |
| Deferred revenue                                  | -                                                         | -                       | 304,768                   | -                       |
|                                                   | <u>-</u>                                                  | <u>-</u>                | <u>304,768</u>            | <u>-</u>                |
| Total liabilities                                 | <u>6,673</u>                                              | <u>114,266</u>          | <u>327,940</u>            | <u>47,228</u>           |
| <b>Fund balances</b>                              |                                                           |                         |                           |                         |
| Reserved for inventories                          | -                                                         | -                       | -                         | -                       |
| Reserved for prepaid items                        | -                                                         | -                       | -                         | -                       |
| Reserved for encumbrances                         | 25,544                                                    | 1,542                   | 64,713                    | -                       |
| Unreserved:                                       |                                                           |                         |                           |                         |
| Designated for subsequent year expenditures       | 387,306                                                   | 69,370                  | -                         | -                       |
| Undesignated                                      | 1,127,350                                                 | -                       | 37,598                    | -                       |
|                                                   | <u>1,540,200</u>                                          | <u>70,912</u>           | <u>102,311</u>            | <u>-</u>                |
| Total fund balances                               | <u>1,540,200</u>                                          | <u>70,912</u>           | <u>102,311</u>            | <u>-</u>                |
| <b><u>TOTAL LIABILITIES AND FUND BALANCES</u></b> | <u>\$ 1,546,873</u>                                       | <u>\$ 185,178</u>       | <u>\$ 430,251</u>         | <u>\$ 47,228</u>        |

| <b>Michigan<br/>Justice<br/>Training</b> | <b>Narcotics<br/>Forfeiture</b> | <b>Public Safety<br/>Communications</b> | <b>Kellogg<br/>Arena</b> | <b>Total</b>        |
|------------------------------------------|---------------------------------|-----------------------------------------|--------------------------|---------------------|
| \$ 25,415                                | \$ 496,130                      | \$ 471,759                              | \$ 246,534               | \$ 2,161,748        |
| -                                        | 6,074                           | -                                       | -                        | 26,994              |
| -                                        | -                               | -                                       | 193,121                  | 982,342             |
| -                                        | -                               | -                                       | -                        | 477,479             |
| -                                        | -                               | -                                       | 14,653                   | 14,653              |
| -                                        | -                               | -                                       | 2,724                    | 2,724               |
| <u>\$ 25,415</u>                         | <u>\$ 502,204</u>               | <u>\$ 471,759</u>                       | <u>\$ 457,032</u>        | <u>\$ 3,665,940</u> |
| \$ -                                     | \$ -                            | \$ -                                    | \$ 86,917                | \$ 93,590           |
| -                                        | 241,543                         | -                                       | -                        | 243,903             |
| -                                        | -                               | -                                       | -                        | 182,306             |
| -                                        | -                               | -                                       | 17,475                   | 322,243             |
| <u>-</u>                                 | <u>241,543</u>                  | <u>-</u>                                | <u>104,392</u>           | <u>842,042</u>      |
| -                                        | -                               | -                                       | 14,653                   | 14,653              |
| -                                        | -                               | -                                       | 2,724                    | 2,724               |
| -                                        | -                               | -                                       | -                        | 91,799              |
| 25,415                                   | 4,071                           | 330,392                                 | -                        | 816,554             |
| -                                        | 256,590                         | 141,367                                 | 335,263                  | 1,898,168           |
| <u>25,415</u>                            | <u>260,661</u>                  | <u>471,759</u>                          | <u>352,640</u>           | <u>2,823,898</u>    |
| <u>\$ 25,415</u>                         | <u>\$ 502,204</u>               | <u>\$ 471,759</u>                       | <u>\$ 457,032</u>        | <u>\$ 3,665,940</u> |

**CITY OF BATTLE CREEK, MICHIGAN**  
**Combining Statement of Revenues, Expenditures and**  
**Changes in Fund Balance - Nonmajor Special Revenue Funds**  
**For the Year Ended June 30, 2006**

|                                             | <b>Major<br/>Street and<br/>Trunkline<br/>Maintenance</b> | <b>Local<br/>Street</b> | <b>Special<br/>Grants</b> | <b>HOME<br/>Program</b> |
|---------------------------------------------|-----------------------------------------------------------|-------------------------|---------------------------|-------------------------|
| <b>Revenues</b>                             |                                                           |                         |                           |                         |
| Intergovernmental                           | \$ 4,493,237                                              | \$ 1,019,254            | \$ 1,589,053              | \$ 227,875              |
| Charges for services                        | -                                                         | -                       | -                         | -                       |
| Interest                                    | 31,248                                                    | (1,175)                 | 2,217                     | -                       |
| Contributions and donations                 | -                                                         | -                       | 742,711                   | -                       |
| Loan collection (distribution) and other    | 191                                                       | 63                      | 66,870                    | 19,533                  |
|                                             | <u>4,524,676</u>                                          | <u>1,018,142</u>        | <u>2,400,851</u>          | <u>247,408</u>          |
| <b>Total revenues</b>                       |                                                           |                         |                           |                         |
|                                             | <u>4,524,676</u>                                          | <u>1,018,142</u>        | <u>2,400,851</u>          | <u>247,408</u>          |
| <b>Expenditures</b>                         |                                                           |                         |                           |                         |
| Current expenditures:                       |                                                           |                         |                           |                         |
| General government                          | -                                                         | -                       | 1,874,022                 | -                       |
| Public safety                               | -                                                         | -                       | 553,605                   | -                       |
| Highways and streets                        | 3,188,465                                                 | 2,800,749               | -                         | -                       |
| Parks and recreation                        | -                                                         | -                       | 395,765                   | -                       |
| Community development                       | -                                                         | -                       | -                         | 246,658                 |
|                                             | <u>3,188,465</u>                                          | <u>2,800,749</u>        | <u>2,823,392</u>          | <u>246,658</u>          |
| <b>Total expenditures</b>                   |                                                           |                         |                           |                         |
|                                             | <u>3,188,465</u>                                          | <u>2,800,749</u>        | <u>2,823,392</u>          | <u>246,658</u>          |
| <b>Revenues over (under) expenditures</b>   |                                                           |                         |                           |                         |
|                                             | <u>1,336,211</u>                                          | <u>(1,782,607)</u>      | <u>(422,541)</u>          | <u>750</u>              |
| <b>Other financing sources (uses)</b>       |                                                           |                         |                           |                         |
| Transfers in                                | -                                                         | 1,894,000               | 513,169                   | -                       |
| Transfers out                               | (1,440,179)                                               | (116,906)               | (100,557)                 | (750)                   |
|                                             | <u>(1,440,179)</u>                                        | <u>1,777,094</u>        | <u>412,612</u>            | <u>(750)</u>            |
| <b>Total other financing sources (uses)</b> |                                                           |                         |                           |                         |
|                                             | <u>(1,440,179)</u>                                        | <u>1,777,094</u>        | <u>412,612</u>            | <u>(750)</u>            |
| <b>Net change in fund balances</b>          |                                                           |                         |                           |                         |
|                                             | (103,968)                                                 | (5,513)                 | (9,929)                   | -                       |
| <b>Fund balances, beginning of year</b>     |                                                           |                         |                           |                         |
|                                             | <u>1,644,168</u>                                          | <u>76,425</u>           | <u>112,240</u>            | <u>-</u>                |
| <b>Fund balances, end of year</b>           |                                                           |                         |                           |                         |
|                                             | <u>\$ 1,540,200</u>                                       | <u>\$ 70,912</u>        | <u>\$ 102,311</u>         | <u>\$ -</u>             |

| <b>Michigan<br/>Justice<br/>Training</b> | <b>Narcotics<br/>Forfeiture</b> | <b>Public Safety<br/>Communications</b> | <b>Kellogg<br/>Arena</b> | <b>Total</b>        |
|------------------------------------------|---------------------------------|-----------------------------------------|--------------------------|---------------------|
| \$ 26,595                                | \$ 306,214                      | \$ 41,715                               | \$ 641,860               | \$ 8,345,803        |
| -                                        | -                               | 547,005                                 | 1,776,898                | 2,323,903           |
| -                                        | 9,461                           | -                                       | -                        | 41,751              |
| -                                        | -                               | -                                       | -                        | 742,711             |
| 802                                      | 18,251                          | -                                       | -                        | 105,710             |
| 27,397                                   | 333,926                         | 588,720                                 | 2,418,758                | 11,559,878          |
| 48,276                                   | 84,313                          | -                                       | -                        | 2,006,611           |
| -                                        | -                               | 790,694                                 | -                        | 1,344,299           |
| -                                        | -                               | -                                       | -                        | 5,989,214           |
| -                                        | -                               | -                                       | 2,951,677                | 3,347,442           |
| -                                        | -                               | -                                       | -                        | 246,658             |
| 48,276                                   | 84,313                          | 790,694                                 | 2,951,677                | 12,934,224          |
| (20,879)                                 | 249,613                         | (201,974)                               | (532,919)                | (1,374,346)         |
| -                                        | -                               | -                                       | 176,000                  | 2,583,169           |
| -                                        | (34,382)                        | -                                       | -                        | (1,692,774)         |
| -                                        | (34,382)                        | -                                       | 176,000                  | 890,395             |
| (20,879)                                 | 215,231                         | (201,974)                               | (356,919)                | (483,951)           |
| 46,294                                   | 45,430                          | 673,733                                 | 709,559                  | 3,307,849           |
| <u>\$ 25,415</u>                         | <u>\$ 260,661</u>               | <u>\$ 471,759</u>                       | <u>\$ 352,640</u>        | <u>\$ 2,823,898</u> |



**CITY OF BATTLE CREEK, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance -**  
**Final Budget and Actual - Nonmajor Special Revenue Funds**  
**For the Year Ended June 30, 2006**

|                                              | <b>Major Street and Trunkline Maintenance Fund</b> |                     |                                                 |
|----------------------------------------------|----------------------------------------------------|---------------------|-------------------------------------------------|
|                                              | <b>Final<br/>Budget</b>                            | <b>Actual</b>       | <b>Actual<br/>Over (Under)<br/>Final Budget</b> |
| <b>Revenues</b>                              |                                                    |                     |                                                 |
| Intergovernmental revenue                    | \$ 4,515,577                                       | \$ 4,493,237        | \$ (22,340)                                     |
| Charges for services                         | -                                                  | -                   | -                                               |
| Interest                                     | 40,000                                             | 31,248              | (8,752)                                         |
| Contributions and donations                  | -                                                  | -                   | -                                               |
| Loan collection (distribution) and other     | -                                                  | 191                 | 191                                             |
| Total revenues                               | <u>4,555,577</u>                                   | <u>4,524,676</u>    | <u>(30,901)</u>                                 |
| <b>Expenditures</b>                          |                                                    |                     |                                                 |
| Current expenditures:                        |                                                    |                     |                                                 |
| General government                           | -                                                  | -                   | -                                               |
| Public safety                                | -                                                  | -                   | -                                               |
| Highways and streets                         | 4,087,208                                          | 3,188,465           | (898,743)                                       |
| Parks and recreation                         | -                                                  | -                   | -                                               |
| Community development                        | -                                                  | -                   | -                                               |
| Debt service:                                |                                                    |                     |                                                 |
| Principal                                    | -                                                  | -                   | -                                               |
| Interest                                     | -                                                  | -                   | -                                               |
| Total expenditures                           | <u>4,087,208</u>                                   | <u>3,188,465</u>    | <u>(898,743)</u>                                |
| Revenues over (under) expenditures           | <u>468,369</u>                                     | <u>1,336,211</u>    | <u>867,842</u>                                  |
| <b>Other financing sources (uses)</b>        |                                                    |                     |                                                 |
| Transfers in                                 | -                                                  | -                   | -                                               |
| Transfers out                                | (1,322,103)                                        | (1,440,179)         | (118,076)                                       |
| Proceeds from sales of capital assets        | -                                                  | -                   | -                                               |
| Total other financing sources (uses)         | <u>(1,322,103)</u>                                 | <u>(1,440,179)</u>  | <u>(118,076)</u>                                |
| Net change in fund balances                  | (853,734)                                          | (103,968)           | 749,766                                         |
| Fund balances, beginning of year             | <u>1,644,168</u>                                   | <u>1,644,168</u>    | <u>-</u>                                        |
| <b>Fund balances (deficits), end of year</b> | <u>\$ 790,434</u>                                  | <u>\$ 1,540,200</u> | <u>\$ 749,766</u>                               |

| Local Street Fund |              |                                        | Special Grants Fund |              |                                        |
|-------------------|--------------|----------------------------------------|---------------------|--------------|----------------------------------------|
| Final<br>Budget   | Actual       | Actual<br>Over (Under)<br>Final Budget | Final<br>Budget     | Actual       | Actual<br>Over (Under)<br>Final Budget |
| \$ 1,033,000      | \$ 1,019,254 | \$ (13,746)                            | \$ 2,433,277        | \$ 1,589,053 | \$ (844,224)                           |
| -                 | -            | -                                      | -                   | -            | -                                      |
| 50,000            | (1,175)      | (51,175)                               | 2,229               | 2,217        | (12)                                   |
| -                 | -            | -                                      | 1,179,183           | 742,711      | (436,472)                              |
| -                 | 63           | 63                                     | 34,492              | 66,870       | 32,378                                 |
| 1,083,000         | 1,018,142    | (64,858)                               | 3,649,181           | 2,400,851    | (1,248,330)                            |
| -                 | -            | -                                      | 3,156,365           | 1,874,022    | (1,282,343)                            |
| -                 | -            | -                                      | 657,387             | 553,605      | (103,782)                              |
| 3,064,000         | 2,800,749    | (263,251)                              | -                   | -            | -                                      |
| -                 | -            | -                                      | 697,433             | 395,765      | (301,668)                              |
| -                 | -            | -                                      | -                   | -            | -                                      |
| -                 | -            | -                                      | -                   | -            | -                                      |
| -                 | -            | -                                      | -                   | -            | -                                      |
| 3,064,000         | 2,800,749    | (263,251)                              | 4,511,185           | 2,823,392    | (1,687,793)                            |
| (1,981,000)       | (1,782,607)  | 198,393                                | (862,004)           | (422,541)    | 439,463                                |
| 1,894,000         | 1,894,000    | -                                      | 757,283             | 513,169      | (244,114)                              |
| (234,982)         | (116,906)    | 118,076                                | (113,370)           | (100,557)    | 12,813                                 |
| -                 | -            | -                                      | -                   | -            | -                                      |
| 1,659,018         | 1,777,094    | 118,076                                | 643,913             | 412,612      | (231,301)                              |
| (321,982)         | (5,513)      | 316,469                                | (218,091)           | (9,929)      | 208,162                                |
| 76,425            | 76,425       | -                                      | 112,240             | 112,240      | -                                      |
| \$ (245,557)      | \$ 70,912    | \$ 316,469                             | \$ (105,851)        | \$ 102,311   | \$ 208,162                             |

Continued...

**CITY OF BATTLE CREEK, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance -**  
**Final Budget and Actual - Nonmajor Special Revenue Funds (Continued)**  
**For the Year Ended June 30, 2006**

|                                              | <b>HOME Program Fund</b> |                |                                                 |
|----------------------------------------------|--------------------------|----------------|-------------------------------------------------|
|                                              | <b>Final<br/>Budget</b>  | <b>Actual</b>  | <b>Actual<br/>Over (Under)<br/>Final Budget</b> |
| <b>Revenues</b>                              |                          |                |                                                 |
| Intergovernmental revenue                    | \$ 1,001,068             | \$ 227,875     | \$ (773,193)                                    |
| Charges for services                         | -                        | -              | -                                               |
| Interest                                     | -                        | -              | -                                               |
| Contributions and donations                  | -                        | -              | -                                               |
| Loan collection (distribution) and other     | -                        | 19,533         | 19,533                                          |
|                                              | <u>1,001,068</u>         | <u>247,408</u> | <u>(753,660)</u>                                |
| Total revenues                               | <u>1,001,068</u>         | <u>247,408</u> | <u>(753,660)</u>                                |
| <b>Expenditures</b>                          |                          |                |                                                 |
| Current expenditures:                        |                          |                |                                                 |
| General government                           | -                        | -              | -                                               |
| Public safety                                | -                        | -              | -                                               |
| Highways and streets                         | -                        | -              | -                                               |
| Parks and recreation                         | -                        | -              | -                                               |
| Community development                        | 1,000,318                | 246,658        | (753,660)                                       |
| Debt service:                                |                          |                |                                                 |
| Principal                                    | -                        | -              | -                                               |
| Interest                                     | -                        | -              | -                                               |
|                                              | <u>1,000,318</u>         | <u>246,658</u> | <u>(753,660)</u>                                |
| Total expenditures                           | <u>1,000,318</u>         | <u>246,658</u> | <u>(753,660)</u>                                |
| Revenues over (under) expenditures           | <u>750</u>               | <u>750</u>     | <u>-</u>                                        |
| <b>Other financing sources (uses)</b>        |                          |                |                                                 |
| Transfers in                                 | -                        | -              | -                                               |
| Transfers out                                | (750)                    | (750)          | -                                               |
| Proceeds from sales of capital assets        | -                        | -              | -                                               |
|                                              | <u>(750)</u>             | <u>(750)</u>   | <u>-</u>                                        |
| Total other financing sources (uses)         | <u>(750)</u>             | <u>(750)</u>   | <u>-</u>                                        |
| Net change in fund balances                  | -                        | -              | -                                               |
| Fund balances, beginning of year             | -                        | -              | -                                               |
| <b>Fund balances (deficits), end of year</b> | <u>\$ -</u>              | <u>\$ -</u>    | <u>\$ -</u>                                     |

| Michigan Justice Training Fund |           |                                        | Narcotics Forfeiture Fund |            |                                        |
|--------------------------------|-----------|----------------------------------------|---------------------------|------------|----------------------------------------|
| Final<br>Budget                | Actual    | Actual<br>Over (Under)<br>Final Budget | Final<br>Budget           | Actual     | Actual<br>Over (Under)<br>Final Budget |
| \$ 26,000                      | \$ 26,595 | \$ 595                                 | \$ 50,000                 | \$ 306,214 | \$ 256,214                             |
| -                              | -         | -                                      | -                         | -          | -                                      |
| -                              | -         | -                                      | 4,000                     | 9,461      | 5,461                                  |
| -                              | -         | -                                      | -                         | -          | -                                      |
| -                              | 802       | 802                                    | 22,000                    | 18,251     | (3,749)                                |
| 26,000                         | 27,397    | 1,397                                  | 76,000                    | 333,926    | 257,926                                |
| 72,294                         | 48,276    | (24,018)                               | 106,100                   | 84,313     | (21,787)                               |
| -                              | -         | -                                      | -                         | -          | -                                      |
| -                              | -         | -                                      | -                         | -          | -                                      |
| -                              | -         | -                                      | -                         | -          | -                                      |
| -                              | -         | -                                      | -                         | -          | -                                      |
| -                              | -         | -                                      | -                         | -          | -                                      |
| -                              | -         | -                                      | -                         | -          | -                                      |
| 72,294                         | 48,276    | (24,018)                               | 106,100                   | 84,313     | (21,787)                               |
| (46,294)                       | (20,879)  | 25,415                                 | (30,100)                  | 249,613    | 279,713                                |
| -                              | -         | -                                      | -                         | -          | -                                      |
| -                              | -         | -                                      | -                         | (34,382)   | (34,382)                               |
| -                              | -         | -                                      | -                         | -          | -                                      |
| -                              | -         | -                                      | -                         | (34,382)   | (34,382)                               |
| (46,294)                       | (20,879)  | 25,415                                 | (30,100)                  | 215,231    | 245,331                                |
| 46,294                         | 46,294    | -                                      | 45,430                    | 45,430     | -                                      |
| \$ -                           | \$ 25,415 | \$ 25,415                              | \$ 15,330                 | \$ 260,661 | \$ 245,331                             |

Continued...

**CITY OF BATTLE CREEK, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance -**  
**Final Budget and Actual - Nonmajor Special Revenue Funds (Concluded)**  
**For the Year Ended June 30, 2006**

|                                          | <b>Public Safety Communications</b> |                   |                                                 |
|------------------------------------------|-------------------------------------|-------------------|-------------------------------------------------|
|                                          | <b>Final<br/>Budget</b>             | <b>Actual</b>     | <b>Actual<br/>Over (Under)<br/>Final Budget</b> |
| <b>Revenues</b>                          |                                     |                   |                                                 |
| Intergovernmental revenue                | \$ 39,407                           | \$ 41,715         | \$ 2,308                                        |
| Charges for services                     | 408,000                             | 547,005           | 139,005                                         |
| Interest                                 | -                                   | -                 | -                                               |
| Contributions and donations              | -                                   | -                 | -                                               |
| Loan collection (distribution) and other | -                                   | -                 | -                                               |
| Total revenues                           | 447,407                             | 588,720           | 141,313                                         |
| <b>Expenditures</b>                      |                                     |                   |                                                 |
| Current expenditures:                    |                                     |                   |                                                 |
| General government                       | -                                   | -                 | -                                               |
| Public safety                            | 997,486                             | 790,694           | (206,792)                                       |
| Highways and streets                     | -                                   | -                 | -                                               |
| Parks and recreation                     | -                                   | -                 | -                                               |
| Community development                    | -                                   | -                 | -                                               |
| Debt service:                            |                                     |                   |                                                 |
| Principal                                | -                                   | -                 | -                                               |
| Interest                                 | -                                   | -                 | -                                               |
| Total expenditures                       | 997,486                             | 790,694           | (206,792)                                       |
| Revenues over (under) expenditures       | (550,079)                           | (201,974)         | 348,105                                         |
| <b>Other financing sources (uses)</b>    |                                     |                   |                                                 |
| Transfers in                             | -                                   | -                 | -                                               |
| Transfers out                            | -                                   | -                 | -                                               |
| Proceeds from sales of capital assets    | -                                   | -                 | -                                               |
| Total other financing sources (uses)     | -                                   | -                 | -                                               |
| Net change in fund balances              | (550,079)                           | (201,974)         | 348,105                                         |
| Fund balances, beginning of year         | 673,733                             | 673,733           | -                                               |
| <b>Fund balances, end of year</b>        | <b>\$ 123,654</b>                   | <b>\$ 471,759</b> | <b>\$ 348,105</b>                               |

| <b>Kellogg Arena Fund</b> |               |                                                 |
|---------------------------|---------------|-------------------------------------------------|
| <b>Final<br/>Budget</b>   | <b>Actual</b> | <b>Actual<br/>Over (Under)<br/>Final Budget</b> |
| \$ 75,000                 | \$ 641,860    | \$ 566,860                                      |
| 1,621,942                 | 1,776,898     | 154,956                                         |
| -                         | -             | -                                               |
| -                         | -             | -                                               |
| -                         | -             | -                                               |
| 1,696,942                 | 2,418,758     | 721,816                                         |
| -                         | -             | -                                               |
| -                         | -             | -                                               |
| -                         | -             | -                                               |
| 1,481,440                 | 2,951,677     | 1,470,237                                       |
| -                         | -             | -                                               |
| -                         | -             | -                                               |
| -                         | -             | -                                               |
| 1,481,440                 | 2,951,677     | 1,470,237                                       |
| 215,502                   | (532,919)     | (748,421)                                       |
| -                         | 176,000       | 176,000                                         |
| -                         | -             | -                                               |
| -                         | -             | -                                               |
| -                         | 176,000       | 176,000                                         |
| 215,502                   | (356,919)     | (572,421)                                       |
| 709,559                   | 709,559       | -                                               |
| \$ 925,061                | \$ 352,640    | \$ (572,421)                                    |

**CITY OF BATTLE CREEK, MICHIGAN**  
**Combining Balance Sheet - Nonmajor Debt Service Funds**  
**June 30, 2006**

|                                                       | <u>DPW<br/>Building</u> | <u>Building<br/>Authority<br/>Bonds</u> | <u>Special<br/>Assessment<br/>Debt Service</u> | <u>Michigan<br/>Transportation<br/>Fund Bonds<br/>Debt Service</u> | <u>Total</u>        |
|-------------------------------------------------------|-------------------------|-----------------------------------------|------------------------------------------------|--------------------------------------------------------------------|---------------------|
| <b><u>ASSETS</u></b>                                  |                         |                                         |                                                |                                                                    |                     |
| <b>Assets</b>                                         |                         |                                         |                                                |                                                                    |                     |
| Pooled cash and investments                           | \$ 3                    | \$ 4,252                                | \$1,041,972                                    | \$ 886                                                             | \$ 1,047,113        |
| Interest receivable                                   | -                       | 43                                      | 10,638                                         | 9                                                                  | 10,690              |
| Special assessments receivable                        | -                       | -                                       | 28,819                                         | -                                                                  | 28,819              |
|                                                       |                         |                                         |                                                |                                                                    |                     |
| <b><u>TOTAL ASSETS</u></b>                            | <u>\$ 3</u>             | <u>\$ 4,295</u>                         | <u>\$1,081,429</u>                             | <u>\$ 895</u>                                                      | <u>\$ 1,086,622</u> |
| <b><u>LIABILITIES AND FUND BALANCES</u></b>           |                         |                                         |                                                |                                                                    |                     |
| <b>Liabilities</b>                                    |                         |                                         |                                                |                                                                    |                     |
| Accounts payable                                      | \$ -                    | \$ -                                    | \$ 31,597                                      | \$ -                                                               | \$ 31,597           |
| Deferred revenue                                      | -                       | -                                       | 2,365                                          | -                                                                  | 2,365               |
|                                                       |                         |                                         |                                                |                                                                    |                     |
| Total liabilities                                     | -                       | -                                       | 33,962                                         | -                                                                  | 33,962              |
|                                                       |                         |                                         |                                                |                                                                    |                     |
| <b>Fund balances</b>                                  |                         |                                         |                                                |                                                                    |                     |
| Unreserved, undesignated                              | 3                       | 4,295                                   | 1,047,467                                      | 895                                                                | 1,052,660           |
|                                                       |                         |                                         |                                                |                                                                    |                     |
| <b><u>TOTAL LIABILITIES<br/>AND FUND BALANCES</u></b> | <u>\$ 3</u>             | <u>\$ 4,295</u>                         | <u>\$1,081,429</u>                             | <u>\$ 895</u>                                                      | <u>\$ 1,086,622</u> |

**CITY OF BATTLE CREEK, MICHIGAN**  
**Combining Statement of Revenues, Expenditures and**  
**Changes in Fund Balance - Nonmajor Debt Service Funds**  
**For the Year Ended June 30, 2006**

|                                    | <b>DPW<br/>Building</b> | <b>Building<br/>Authority<br/>Bonds</b> | <b>Special<br/>Assessment<br/>Debt Service</b> | <b>Michigan<br/>Transportation<br/>Fund Bonds<br/>Debt Service</b> | <b>Total</b>        |
|------------------------------------|-------------------------|-----------------------------------------|------------------------------------------------|--------------------------------------------------------------------|---------------------|
| <b>Revenues</b>                    |                         |                                         |                                                |                                                                    |                     |
| Special assessment collections     | \$ -                    | \$ -                                    | \$ 6,515                                       | \$ -                                                               | \$ 6,515            |
| Interest                           | (105)                   | 155                                     | 20,224                                         | 16                                                                 | 20,290              |
| Local sources                      | -                       | 1,367,217                               | -                                              | -                                                                  | 1,367,217           |
| Total revenues                     | (105)                   | 1,367,372                               | 26,739                                         | 16                                                                 | 1,394,022           |
| <b>Expenditures</b>                |                         |                                         |                                                |                                                                    |                     |
| Debt service:                      |                         |                                         |                                                |                                                                    |                     |
| Principal retirement               | 365,000                 | 815,000                                 | 25,000                                         | 285,000                                                            | 1,490,000           |
| Interest                           | 413,670                 | 552,371                                 | 946                                            | 65,970                                                             | 1,032,957           |
| Total expenditures                 | 778,670                 | 1,367,371                               | 25,946                                         | 350,970                                                            | 2,522,957           |
| Revenues over (under) expenditures | (778,775)               | 1                                       | 793                                            | (350,954)                                                          | (1,128,935)         |
| <b>Other financing sources</b>     |                         |                                         |                                                |                                                                    |                     |
| Transfers in                       | 778,669                 | -                                       | -                                              | 350,719                                                            | 1,129,388           |
| Net change in fund balances        | (106)                   | 1                                       | 793                                            | (235)                                                              | 453                 |
| Fund balances, beginning of year   | 109                     | 4,294                                   | 1,046,674                                      | 1,130                                                              | 1,052,207           |
| <b>Fund balances, end of year</b>  | <b>\$ 3</b>             | <b>\$ 4,295</b>                         | <b>\$ 1,047,467</b>                            | <b>\$ 895</b>                                                      | <b>\$ 1,052,660</b> |



**CITY OF BATTLE CREEK, MICHIGAN**  
**Combining Balance Sheet - Nonmajor Capital Projects Funds**  
**June 30, 2006**

|                                                       | <u>Street<br/>Projects</u> | <u>DPW<br/>Building<br/>Construction</u> | <u>Justice<br/>Center<br/>Construction</u> | <u>General<br/>Capital<br/>Improvement</u> | <u>Dispatch<br/>Capital<br/>Improvement</u> | <u>Total</u>        |
|-------------------------------------------------------|----------------------------|------------------------------------------|--------------------------------------------|--------------------------------------------|---------------------------------------------|---------------------|
| <b><u>ASSETS</u></b>                                  |                            |                                          |                                            |                                            |                                             |                     |
| <b>Assets</b>                                         |                            |                                          |                                            |                                            |                                             |                     |
| Pooled cash and investments                           | \$ 176,086                 | \$ -                                     | \$ 6,172                                   | \$ 1,373,910                               | \$ 3,425,058                                | \$ 4,981,226        |
| Receivables:                                          |                            |                                          |                                            |                                            |                                             |                     |
| Interest                                              | -                          | -                                        | 63                                         | 14,349                                     | 26,343                                      | 40,755              |
| Grants                                                | 16,173                     | -                                        | -                                          | -                                          | -                                           | 16,173              |
| <b><u>TOTAL ASSETS</u></b>                            | <u>\$ 192,259</u>          | <u>\$ -</u>                              | <u>\$ 6,235</u>                            | <u>\$ 1,388,259</u>                        | <u>\$ 3,451,401</u>                         | <u>\$ 5,038,154</u> |
| <b><u>LIABILITIES AND FUND BALANCES</u></b>           |                            |                                          |                                            |                                            |                                             |                     |
| <b>Liabilities</b>                                    |                            |                                          |                                            |                                            |                                             |                     |
| Retentions, deposits and other liabilities            | \$ 28,030                  | \$ -                                     | \$ -                                       | \$ -                                       | \$ -                                        | \$ 28,030           |
| <b>Fund balances</b>                                  |                            |                                          |                                            |                                            |                                             |                     |
| Designated for future departmental appropriations     | -                          | -                                        | -                                          | 671,617                                    | -                                           | 671,617             |
| Unreserved, undesignated                              | 164,229                    | -                                        | 6,235                                      | 716,642                                    | 3,451,401                                   | 4,338,507           |
| Total fund balances                                   | 164,229                    | -                                        | 6,235                                      | 1,388,259                                  | 3,451,401                                   | 5,010,124           |
| <b><u>TOTAL LIABILITIES<br/>AND FUND BALANCES</u></b> | <u>\$ 192,259</u>          | <u>\$ -</u>                              | <u>\$ 6,235</u>                            | <u>\$ 1,388,259</u>                        | <u>\$ 3,451,401</u>                         | <u>\$ 5,038,154</u> |

**CITY OF BATTLE CREEK, MICHIGAN**  
**Combining Statement of Revenue, Expenditures and**  
**Changes in Fund Balance - Nonmajor Capital Projects Funds**  
**For the Year Ended June 30, 2006**

|                                       | <u>Street<br/>Projects</u> | <u>DPW<br/>Building<br/>Construction</u> | <u>Justice<br/>Center<br/>Construction</u> | <u>General<br/>Capital<br/>Improvement</u> | <u>Dispatch<br/>Capital<br/>Improvement</u> | <u>Total</u>        |
|---------------------------------------|----------------------------|------------------------------------------|--------------------------------------------|--------------------------------------------|---------------------------------------------|---------------------|
| <b>Revenue</b>                        |                            |                                          |                                            |                                            |                                             |                     |
| Intergovernmental                     | \$ 84,499                  | \$ -                                     | \$ -                                       | \$ -                                       | \$ -                                        | \$ 84,499           |
| Investment income                     | -                          | 3,678                                    | 116                                        | 15,186                                     | (113)                                       | 18,867              |
| Other                                 | 400                        | -                                        | -                                          | -                                          | -                                           | 400                 |
| Total revenue                         | 84,899                     | 3,678                                    | 116                                        | 15,186                                     | (113)                                       | 103,766             |
| <b>Expenditures</b>                   |                            |                                          |                                            |                                            |                                             |                     |
| Highways and streets                  | 4,621,372                  | -                                        | -                                          | 150,248                                    | -                                           | 4,771,620           |
| Debt service - interest               | -                          | -                                        | -                                          | -                                          | 37,456                                      | 37,456              |
| Capital outlay                        | -                          | 6,867                                    | -                                          | -                                          | 1,192,448                                   | 1,199,315           |
| Total expenditures                    | 4,621,372                  | 6,867                                    | -                                          | 150,248                                    | 1,229,904                                   | 6,008,391           |
| Revenue over (under) expenditures     | (4,536,473)                | (3,189)                                  | 116                                        | (135,062)                                  | (1,230,017)                                 | (5,904,625)         |
| <b>Other financing sources (uses)</b> |                            |                                          |                                            |                                            |                                             |                     |
| Bonds issued                          | -                          | -                                        | -                                          | -                                          | 3,819,000                                   | 3,819,000           |
| Transfers in                          | 3,081,036                  | -                                        | -                                          | 967,952                                    | 862,418                                     | 4,911,406           |
| Transfers out                         | -                          | (200,000)                                | -                                          | (511,727)                                  | -                                           | (711,727)           |
| Total other financing sources         | 3,081,036                  | (200,000)                                | -                                          | 456,225                                    | 4,681,418                                   | 8,018,679           |
| Net change in fund balances           | (1,455,437)                | (203,189)                                | 116                                        | 321,163                                    | 3,451,401                                   | 2,114,054           |
| Fund balances, beginning of year      | 1,619,666                  | 203,189                                  | 6,119                                      | 1,067,096                                  | -                                           | 2,896,070           |
| <b>Fund balances, end of year</b>     | <u>\$ 164,229</u>          | <u>\$ -</u>                              | <u>\$ 6,235</u>                            | <u>\$ 1,388,259</u>                        | <u>\$ 3,451,401</u>                         | <u>\$ 5,010,124</u> |

**CITY OF BATTLE CREEK, MICHIGAN**  
**Combining Balance Sheet - Nonmajor Permanent Funds**  
**June 30, 2006**

|                                                       | <b>Youth<br/>Center<br/>Endowment</b> | <b>Kellogg<br/>Arena<br/>Endowment</b> | <b>Special<br/>Project<br/>Reserves</b> | <b>Total</b>        |
|-------------------------------------------------------|---------------------------------------|----------------------------------------|-----------------------------------------|---------------------|
| <b><u>ASSETS</u></b>                                  |                                       |                                        |                                         |                     |
| <b>Assets</b>                                         |                                       |                                        |                                         |                     |
| Pooled cash and investments                           | \$ 1,776,089                          | \$ 631,642                             | \$ 1,061,511                            | \$ 3,469,242        |
| Interest receivable                                   | 18,023                                | 6,399                                  | -                                       | 24,422              |
| Special assessments receivable                        | -                                     | -                                      | 218,372                                 | 218,372             |
|                                                       | <u>-</u>                              | <u>-</u>                               | <u>218,372</u>                          | <u>218,372</u>      |
| <b><u>TOTAL ASSETS</u></b>                            | <u>\$ 1,794,112</u>                   | <u>\$ 638,041</u>                      | <u>\$ 1,279,883</u>                     | <u>\$ 3,712,036</u> |
| <b><u>LIABILITIES AND FUND BALANCES</u></b>           |                                       |                                        |                                         |                     |
| <b>Liabilities</b>                                    |                                       |                                        |                                         |                     |
| Deferred revenue                                      | \$ -                                  | \$ -                                   | \$ 218,372                              | \$ 218,372          |
|                                                       | <u>-</u>                              | <u>-</u>                               | <u>218,372</u>                          | <u>218,372</u>      |
| <b>Fund balances</b>                                  |                                       |                                        |                                         |                     |
| Reserved:                                             |                                       |                                        |                                         |                     |
| Youth Center                                          | 1,500,000                             | -                                      | -                                       | 1,500,000           |
| Kellogg Arena                                         | -                                     | 623,533                                | -                                       | 623,533             |
| Unreserved, undesignated                              | 294,112                               | 14,508                                 | 1,061,511                               | 1,370,131           |
|                                                       | <u>294,112</u>                        | <u>14,508</u>                          | <u>1,061,511</u>                        | <u>1,370,131</u>    |
| Total fund balances                                   | 1,794,112                             | 638,041                                | 1,061,511                               | 3,493,664           |
|                                                       | <u>1,794,112</u>                      | <u>638,041</u>                         | <u>1,061,511</u>                        | <u>3,493,664</u>    |
| <b><u>TOTAL LIABILITIES<br/>AND FUND BALANCES</u></b> | <u>\$ 1,794,112</u>                   | <u>\$ 638,041</u>                      | <u>\$ 1,279,883</u>                     | <u>\$ 3,712,036</u> |

**CITY OF BATTLE CREEK, MICHIGAN**  
**Combining Statement of Revenues, Expenditures and**  
**Changes in Fund Balance - Nonmajor Permanent Funds**  
**For the Year Ended June 30, 2006**

|                                       | <b>Youth<br/>Center<br/>Endowment</b> | <b>Kellogg<br/>Arena<br/>Endowment</b> | <b>Special<br/>Project<br/>Reserves</b> | <b>Total</b>               |
|---------------------------------------|---------------------------------------|----------------------------------------|-----------------------------------------|----------------------------|
| <b>Revenues</b>                       |                                       |                                        |                                         |                            |
| Investment income                     | \$ 34,142                             | \$ 13,741                              | \$ -                                    | \$ 47,883                  |
| Other                                 | -                                     | -                                      | 121,994                                 | 121,994                    |
|                                       | <u>34,142</u>                         | <u>13,741</u>                          | <u>121,994</u>                          | <u>169,877</u>             |
| Total revenues                        | <u>34,142</u>                         | <u>13,741</u>                          | <u>121,994</u>                          | <u>169,877</u>             |
| <b>Expenditures</b>                   |                                       |                                        |                                         |                            |
| Unallocated                           | 128,357                               | -                                      | 120,732                                 | 249,089                    |
| Debt service:                         |                                       |                                        |                                         |                            |
| Principal                             | -                                     | -                                      | 140,000                                 | 140,000                    |
| Interest                              | -                                     | -                                      | 20,694                                  | 20,694                     |
|                                       | <u>128,357</u>                        | <u>-</u>                               | <u>281,426</u>                          | <u>409,783</u>             |
| Total expenditures                    | <u>128,357</u>                        | <u>-</u>                               | <u>281,426</u>                          | <u>409,783</u>             |
| Revenues over (under) expenditures    | <u>(94,215)</u>                       | <u>13,741</u>                          | <u>(159,432)</u>                        | <u>(239,906)</u>           |
| <b>Other financing sources (uses)</b> |                                       |                                        |                                         |                            |
| Transfers in                          | -                                     | -                                      | 225,883                                 | 225,883                    |
| Transfers out                         | -                                     | (176,000)                              | -                                       | (176,000)                  |
|                                       | <u>-</u>                              | <u>(176,000)</u>                       | <u>225,883</u>                          | <u>49,883</u>              |
| Total other financing uses            | <u>-</u>                              | <u>(176,000)</u>                       | <u>225,883</u>                          | <u>49,883</u>              |
| Net change in fund balances           | (94,215)                              | (162,259)                              | 66,451                                  | (190,023)                  |
| Fund balances, beginning of year      | <u>1,888,327</u>                      | <u>800,300</u>                         | <u>995,060</u>                          | <u>3,683,687</u>           |
| <b>Fund balances, end of year</b>     | <u><u>\$ 1,794,112</u></u>            | <u><u>\$ 638,041</u></u>               | <u><u>\$ 1,061,511</u></u>              | <u><u>\$ 3,493,664</u></u> |

**CITY OF BATTLE CREEK, MICHIGAN**  
**Combining Statement of Net Assets - Nonmajor Enterprise Funds**  
**June 30, 2006**

|                                                 | <b>Binder Park<br/>Golf Course</b> | <b>Automobile<br/>Parking<br/>System</b> | <b>FAA</b>        | <b>Battle Creek<br/>Transit System</b> |
|-------------------------------------------------|------------------------------------|------------------------------------------|-------------------|----------------------------------------|
| <b>Assets</b>                                   |                                    |                                          |                   |                                        |
| Current assets:                                 |                                    |                                          |                   |                                        |
| Pooled cash and investments                     | \$ -                               | \$ 464,152                               | \$ 364,027        | \$ -                                   |
| Receivables:                                    |                                    |                                          |                   |                                        |
| Interest                                        | 795                                | 4,861                                    | 9                 | -                                      |
| Accounts                                        | -                                  | -                                        | -                 | -                                      |
| Grants                                          | -                                  | -                                        | -                 | 845,357                                |
| Loans, current portion                          | -                                  | -                                        | -                 | -                                      |
| Inventories                                     | 73,886                             | -                                        | -                 | 96,436                                 |
| Other assets                                    | -                                  | -                                        | -                 | 63,203                                 |
| Total current assets                            | <u>74,681</u>                      | <u>469,013</u>                           | <u>364,036</u>    | <u>1,004,996</u>                       |
| Noncurrent assets:                              |                                    |                                          |                   |                                        |
| Loans receivable, net                           | -                                  | -                                        | -                 | -                                      |
| Capital assets, net                             | <u>3,327,443</u>                   | <u>7,388,106</u>                         | <u>2,298,462</u>  | <u>2,317,216</u>                       |
| Total noncurrent assets                         | <u>3,327,443</u>                   | <u>7,388,106</u>                         | <u>2,298,462</u>  | <u>2,317,216</u>                       |
| Total assets                                    | <u>3,402,124</u>                   | <u>7,857,119</u>                         | <u>2,662,498</u>  | <u>3,322,212</u>                       |
| <b>Liabilities</b>                              |                                    |                                          |                   |                                        |
| Current liabilities:                            |                                    |                                          |                   |                                        |
| Accounts payable                                | 11                                 | -                                        | -                 | -                                      |
| Accrued payroll and compensated absences        | 2,742                              | -                                        | -                 | 72,156                                 |
| Accrued interest payable                        | 52,588                             | -                                        | 14,757            | -                                      |
| Interfund payable                               | 537,058                            | -                                        | -                 | 593,831                                |
| Unearned revenue                                | 32,885                             | -                                        | -                 | -                                      |
| Current portion of bonds payable                | <u>140,000</u>                     | <u>-</u>                                 | <u>195,000</u>    | <u>-</u>                               |
| Total current liabilities                       | <u>765,284</u>                     | <u>-</u>                                 | <u>209,757</u>    | <u>665,987</u>                         |
| Noncurrent liabilities -                        |                                    |                                          |                   |                                        |
| Advance from component unit                     | -                                  | -                                        | 397,540           | -                                      |
| Bonds payable                                   | <u>2,735,000</u>                   | <u>-</u>                                 | <u>1,113,865</u>  | <u>-</u>                               |
| Total liabilities                               | <u>3,500,284</u>                   | <u>-</u>                                 | <u>1,721,162</u>  | <u>665,987</u>                         |
| <b>Net assets (deficit)</b>                     |                                    |                                          |                   |                                        |
| Invested in capital assets, net of related debt | 452,443                            | 7,388,106                                | 989,597           | 2,317,216                              |
| Unrestricted (deficit)                          | <u>(550,603)</u>                   | <u>469,013</u>                           | <u>(48,261)</u>   | <u>339,009</u>                         |
| Total net assets (deficit)                      | <u>\$ (98,160)</u>                 | <u>\$ 7,857,119</u>                      | <u>\$ 941,336</u> | <u>\$ 2,656,225</u>                    |

| <b>Solid Waste<br/>Collection</b> | <b>Economic<br/>Development</b> | <b>Fiber<br/>Conduit</b> | <b>Total</b>         |
|-----------------------------------|---------------------------------|--------------------------|----------------------|
| \$ 167,418                        | \$ 6,920,536                    | \$ -                     | \$ 7,916,133         |
| 3,131                             | 55,801                          | -                        | 64,597               |
| 108,832                           | 278,544                         | -                        | 387,376              |
| -                                 | -                               | -                        | 845,357              |
| -                                 | 2,231,680                       | -                        | 2,231,680            |
| -                                 | -                               | -                        | 170,322              |
| -                                 | -                               | -                        | 63,203               |
| <u>279,381</u>                    | <u>9,486,561</u>                | <u>-</u>                 | <u>11,678,668</u>    |
| -                                 | 3,209,896                       | -                        | 3,209,896            |
| -                                 | -                               | 1,811,105                | 17,142,332           |
| <u>-</u>                          | <u>3,209,896</u>                | <u>1,811,105</u>         | <u>20,352,228</u>    |
| <u>279,381</u>                    | <u>12,696,457</u>               | <u>1,811,105</u>         | <u>32,030,896</u>    |
| -                                 | 3,254,027                       | -                        | 3,254,038            |
| 13,057                            | -                               | -                        | 87,955               |
| -                                 | -                               | 1,103                    | 68,448               |
| -                                 | -                               | 1,721,325                | 2,852,214            |
| 10,700                            | -                               | -                        | 43,585               |
| -                                 | -                               | -                        | 335,000              |
| <u>23,757</u>                     | <u>3,254,027</u>                | <u>1,722,428</u>         | <u>6,641,240</u>     |
| -                                 | -                               | -                        | 397,540              |
| <u>-</u>                          | <u>-</u>                        | <u>-</u>                 | <u>3,848,865</u>     |
| <u>23,757</u>                     | <u>3,254,027</u>                | <u>1,722,428</u>         | <u>10,887,645</u>    |
| -                                 | -                               | 1,811,105                | 12,958,467           |
| <u>255,624</u>                    | <u>9,442,430</u>                | <u>(1,722,428)</u>       | <u>8,184,784</u>     |
| <u>\$ 255,624</u>                 | <u>\$ 9,442,430</u>             | <u>\$ 88,677</u>         | <u>\$ 21,143,251</u> |

**CITY OF BATTLE CREEK, MICHIGAN**  
**Combining Statement of Revenues, Expenses and**  
**Changes in Fund Net Assets - Nonmajor Enterprise Funds**  
**For the Year Ended June 30, 2006**

|                                                  | <u>Binder Park<br/>Golf Course</u> | <u>Automobile<br/>Parking<br/>System</u> | <u>FAA</u>        | <u>Battle Creek<br/>Transit System</u> |
|--------------------------------------------------|------------------------------------|------------------------------------------|-------------------|----------------------------------------|
| <b>Operating revenues</b>                        |                                    |                                          |                   |                                        |
| Charges for services                             | \$ 1,173,437                       | \$ 659,630                               | \$ 419,410        | \$ 358,253                             |
| Other                                            | 14,481                             | -                                        | -                 | 39,758                                 |
| Total operating revenues                         | <u>1,187,918</u>                   | <u>659,630</u>                           | <u>419,410</u>    | <u>398,011</u>                         |
| <b>Operating expenses</b>                        |                                    |                                          |                   |                                        |
| Personal services                                | 184,837                            | -                                        | 7,236             | 2,498,397                              |
| Materials and supplies                           | 381,742                            | 37                                       | 2,096             | 469,996                                |
| Contractual and other                            | 400,684                            | 668,476                                  | 124,373           | 472,227                                |
| Depreciation                                     | 127,019                            | 352,834                                  | 149,241           | 335,911                                |
| Total operating expenses                         | <u>1,094,282</u>                   | <u>1,021,347</u>                         | <u>282,946</u>    | <u>3,776,531</u>                       |
| Operating income (loss)                          | <u>93,636</u>                      | <u>(361,717)</u>                         | <u>136,464</u>    | <u>(3,378,520)</u>                     |
| <b>Non-operating revenues (expenses)</b>         |                                    |                                          |                   |                                        |
| Intergovernmental subsidies                      | -                                  | -                                        | -                 | 2,382,180                              |
| Loss on disposal of assets                       | -                                  | -                                        | -                 | (19,622)                               |
| Interest income                                  | 1,989                              | 7,853                                    | 21                | -                                      |
| Interest expense                                 | (126,975)                          | -                                        | (66,198)          | -                                      |
| Total non-operating revenues (expenses)          | <u>(124,986)</u>                   | <u>7,853</u>                             | <u>(66,177)</u>   | <u>2,362,558</u>                       |
| Income (loss) before contributions and transfers | <u>(31,350)</u>                    | <u>(353,864)</u>                         | <u>70,287</u>     | <u>(1,015,962)</u>                     |
| <b>Transfers in</b>                              | 66,667                             | 62,856                                   | 251,980           | 895,607                                |
| <b>Transfers out</b>                             | <u>-</u>                           | <u>(1,010)</u>                           | <u>(252,790)</u>  | <u>(4,550)</u>                         |
| Change in net assets                             | 35,317                             | (292,018)                                | 69,477            | (124,905)                              |
| Net assets (deficit), beginning of year          | <u>(133,477)</u>                   | <u>8,149,137</u>                         | <u>871,859</u>    | <u>2,781,130</u>                       |
| <b>Net assets (deficit), end of year</b>         | <u>\$ (98,160)</u>                 | <u>\$ 7,857,119</u>                      | <u>\$ 941,336</u> | <u>\$ 2,656,225</u>                    |

| <b>Solid Waste<br/>Collection</b> | <b>Economic<br/>Development</b> | <b>Fiber<br/>Conduit</b> | <b>Total</b>  |
|-----------------------------------|---------------------------------|--------------------------|---------------|
| \$ 2,249,780                      | \$ -                            | \$ -                     | \$ 4,860,510  |
| 1,100                             | 118,704                         | -                        | 174,043       |
| 2,250,880                         | 118,704                         | -                        | 5,034,553     |
| 174,237                           | -                               | -                        | 2,864,707     |
| 25,427                            | -                               | -                        | 879,298       |
| 2,095,341                         | 690,112                         | 60                       | 4,451,273     |
| 742                               | -                               | 38,544                   | 1,004,291     |
| 2,295,747                         | 690,112                         | 38,604                   | 9,199,569     |
| (44,867)                          | (571,408)                       | (38,604)                 | (4,165,016)   |
| -                                 | -                               | -                        | 2,382,180     |
| -                                 | -                               | -                        | (19,622)      |
| (708)                             | 212,189                         | 7                        | 221,351       |
| -                                 | -                               | (35,974)                 | (229,147)     |
| (708)                             | 212,189                         | (35,967)                 | 2,354,762     |
| (45,575)                          | (359,219)                       | (74,571)                 | (1,810,254)   |
| -                                 | -                               | -                        | 1,277,110     |
| (12,300)                          | -                               | -                        | (270,650)     |
| (57,875)                          | (359,219)                       | (74,571)                 | (803,794)     |
| 313,499                           | 9,801,649                       | 163,248                  | 21,947,045    |
| \$ 255,624                        | \$ 9,442,430                    | \$ 88,677                | \$ 21,143,251 |



# CITY OF BATTLE CREEK, MICHIGAN

## Combining Statement of Cash Flows

### Nonmajor Enterprise Funds

For the Year Ended June 30, 2006

|                                                                                               | Binder Park<br>Golf Course | Automobile<br>Parking<br>System | FAA                      | Battle Creek<br>Transit System |
|-----------------------------------------------------------------------------------------------|----------------------------|---------------------------------|--------------------------|--------------------------------|
| <b>Cash flows from operating activities</b>                                                   |                            |                                 |                          |                                |
| Receipts from customers and users                                                             | \$ 1,192,480               | \$ 725,901                      | \$ 384,459               | \$ 398,011                     |
| Loans collected from borrowers                                                                | -                          | -                               | -                        | -                              |
| Loans made to borrowers                                                                       | -                          | -                               | -                        | -                              |
| Payments to suppliers and contractors                                                         | (729,635)                  | (724,043)                       | (123,817)                | (1,005,292)                    |
| Payments to employees                                                                         | (184,837)                  | -                               | (7,236)                  | (2,513,732)                    |
| Payments for interfund services                                                               | (82,160)                   | (37)                            | (8,661)                  | (271,696)                      |
| Net cash provided by (used in) operating activities                                           | <u>195,848</u>             | <u>1,821</u>                    | <u>244,745</u>           | <u>(3,392,709)</u>             |
| <b>Cash flows from non-capital financing activities</b>                                       |                            |                                 |                          |                                |
| Transfers in                                                                                  | 66,667                     | 62,856                          | 251,980                  | 895,607                        |
| Transfers out                                                                                 | -                          | (1,010)                         | (252,790)                | (4,550)                        |
| Intergovernmental subsidies                                                                   | -                          | -                               | -                        | 2,543,569                      |
| Net cash provided by (used in) non-capital financing activities                               | <u>66,667</u>              | <u>61,846</u>                   | <u>(810)</u>             | <u>3,434,626</u>               |
| <b>Cash flows from capital and related financing activities</b>                               |                            |                                 |                          |                                |
| Proceeds from interfund borrowing                                                             | -                          | -                               | -                        | -                              |
| Principal and interest paid on long-term debt                                                 | (264,337)                  | -                               | (253,117)                | -                              |
| Purchase of capital assets                                                                    | -                          | -                               | -                        | (41,917)                       |
| Net cash provided by (used in) capital and related financing activities                       | <u>(264,337)</u>           | <u>-</u>                        | <u>(253,117)</u>         | <u>(41,917)</u>                |
| <b>Cash flows from investing activities</b>                                                   |                            |                                 |                          |                                |
| Interest received on investments                                                              | <u>1,822</u>               | <u>5,972</u>                    | <u>19</u>                | <u>-</u>                       |
| Net increase (decrease) in pooled cash and investments                                        | -                          | 69,639                          | (9,163)                  | -                              |
| Pooled cash and investments, beginning of year                                                | -                          | 394,513                         | 373,190                  | -                              |
| <b>Pooled cash and investments, end of year</b>                                               | <u><u>\$ -</u></u>         | <u><u>\$ 464,152</u></u>        | <u><u>\$ 364,027</u></u> | <u><u>\$ -</u></u>             |
| <b>Reconciliation of operating income (loss) to net cash provided by operating activities</b> |                            |                                 |                          |                                |
| Operating income (loss)                                                                       | \$ 93,636                  | \$ (361,717)                    | \$ 136,464               | \$ (3,378,520)                 |
| Adjustments to reconcile operating income (loss) to net cash from operating activities:       |                            |                                 |                          |                                |
| Depreciation                                                                                  | 127,019                    | 352,834                         | 149,241                  | 335,911                        |
| Amortization of bond issuance costs                                                           | -                          | -                               | 1,138                    | -                              |
| Changes in assets and liabilities:                                                            |                            |                                 |                          |                                |
| Accounts receivable                                                                           | -                          | 66,271                          | -                        | -                              |
| Loans receivable                                                                              | -                          | -                               | -                        | -                              |
| Inventories and other assets                                                                  | 919                        | -                               | -                        | (51,431)                       |
| Accounts payable                                                                              | 11                         | (55,567)                        | -                        | -                              |
| Accrued payroll and compensated absences                                                      | -                          | -                               | -                        | (15,335)                       |
| Retentions, deposits and other liabilities                                                    | -                          | -                               | (7,147)                  | -                              |
| Interfund payable                                                                             | (30,299)                   | -                               | -                        | (283,334)                      |
| Deferred revenue                                                                              | 4,562                      | -                               | (34,951)                 | -                              |
| <b>Net cash provided by (used in) operating activities</b>                                    | <u><u>\$ 195,848</u></u>   | <u><u>\$ 1,821</u></u>          | <u><u>\$ 244,745</u></u> | <u><u>\$ (3,392,709)</u></u>   |

| <b>Solid Waste<br/>Collection</b> | <b>Economic<br/>Development</b> | <b>Fiber<br/>Conduit</b> | <b>Total</b>          |
|-----------------------------------|---------------------------------|--------------------------|-----------------------|
| \$ 2,337,590                      | \$ 118,704                      | \$ -                     | \$ 5,157,145          |
| -                                 | 1,126,437                       | -                        | 1,126,437             |
| -                                 | (659,286)                       | -                        | (659,286)             |
| (2,108,627)                       | -                               | (60)                     | (4,691,474)           |
| (174,364)                         | -                               | -                        | (2,880,169)           |
| (12,141)                          | -                               | -                        | (374,695)             |
| <u>42,458</u>                     | <u>585,855</u>                  | <u>(60)</u>              | <u>(2,322,042)</u>    |
| -                                 | -                               | -                        | 1,277,110             |
| (12,300)                          | -                               | -                        | (270,650)             |
| <u>-</u>                          | <u>-</u>                        | <u>-</u>                 | <u>2,543,569</u>      |
| (12,300)                          | -                               | -                        | 3,550,029             |
| -                                 | -                               | 36,061                   | 36,061                |
| -                                 | -                               | (36,013)                 | (553,467)             |
| <u>-</u>                          | <u>-</u>                        | <u>-</u>                 | <u>(41,917)</u>       |
| -                                 | -                               | 48                       | (559,323)             |
| (1,977)                           | 193,581                         | 12                       | 199,429               |
| 28,181                            | 779,436                         | -                        | 868,093               |
| 139,237                           | 6,141,100                       | -                        | 7,048,040             |
| <u>\$ 167,418</u>                 | <u>\$ 6,920,536</u>             | <u>\$ -</u>              | <u>\$ 7,916,133</u>   |
| \$ (44,867)                       | \$ (571,408)                    | \$ (38,604)              | \$ (4,165,016)        |
| 742                               | -                               | 38,544                   | 1,004,291             |
| -                                 | -                               | -                        | 1,138                 |
| 76,010                            | (32,818)                        | -                        | 109,463               |
| -                                 | 996,805                         | -                        | 996,805               |
| -                                 | -                               | -                        | (50,512)              |
| -                                 | 193,276                         | -                        | 137,720               |
| (127)                             | -                               | -                        | (15,462)              |
| -                                 | -                               | -                        | (7,147)               |
| -                                 | -                               | -                        | (313,633)             |
| 10,700                            | -                               | -                        | (19,689)              |
| <u>\$ 42,458</u>                  | <u>\$ 585,855</u>               | <u>\$ (60)</u>           | <u>\$ (2,322,042)</u> |

**CITY OF BATTLE CREEK, MICHIGAN**  
**Combining Statement of Net Assets**  
**Internal Service Funds**  
**June 30, 2006**

|                                          | <u>Equipment<br/>Center</u> | <u>Self-<br/>Insurance</u> | <u>Information<br/>Services</u> | <u>Reproduction</u> | <u>Total</u>         |
|------------------------------------------|-----------------------------|----------------------------|---------------------------------|---------------------|----------------------|
| <b>Assets</b>                            |                             |                            |                                 |                     |                      |
| Current assets:                          |                             |                            |                                 |                     |                      |
| Pooled cash and investments              | \$ 1,141,807                | \$ 8,770,299               | \$ 1,232,881                    | \$ 534,600          | \$ 11,679,587        |
| Interest receivable                      | -                           | 89,744                     | -                               | -                   | 89,744               |
| Inventories                              | 351,912                     | -                          | -                               | -                   | 351,912              |
| Prepaid items                            | -                           | 295,765                    | 25,789                          | -                   | 321,554              |
|                                          | <u>1,493,719</u>            | <u>9,155,808</u>           | <u>1,258,670</u>                | <u>534,600</u>      | <u>12,442,797</u>    |
| Total current assets                     |                             |                            |                                 |                     |                      |
| Noncurrent assets:                       |                             |                            |                                 |                     |                      |
| Capital assets, net                      | <u>2,151,350</u>            | <u>-</u>                   | <u>360,573</u>                  | <u>-</u>            | <u>2,511,923</u>     |
| Total assets                             | <u>3,645,069</u>            | <u>9,155,808</u>           | <u>1,619,243</u>                | <u>534,600</u>      | <u>14,954,720</u>    |
| <b>Liabilities</b>                       |                             |                            |                                 |                     |                      |
| Current liabilities:                     |                             |                            |                                 |                     |                      |
| Accrued payroll and compensated absences | 64,077                      | 10,086                     | 49,682                          | 22,287              | 146,132              |
| Claims payable                           | -                           | 4,280,574                  | -                               | -                   | 4,280,574            |
|                                          | <u>64,077</u>               | <u>4,290,660</u>           | <u>49,682</u>                   | <u>22,287</u>       | <u>4,426,706</u>     |
| Total current liabilities                |                             |                            |                                 |                     |                      |
| <b>Net assets</b>                        |                             |                            |                                 |                     |                      |
| Invested in capital assets               | 2,151,350                   | -                          | 360,573                         | -                   | 2,511,923            |
| Unrestricted                             | <u>1,429,642</u>            | <u>4,865,148</u>           | <u>1,208,988</u>                | <u>512,313</u>      | <u>8,016,091</u>     |
| Total net assets                         | <u>\$ 3,580,992</u>         | <u>\$ 4,865,148</u>        | <u>\$ 1,569,561</u>             | <u>\$ 512,313</u>   | <u>\$ 10,528,014</u> |

**CITY OF BATTLE CREEK, MICHIGAN**  
**Combining Statement of Revenues, Expenses**  
**and Changes in Fund Net Assets**  
**Internal Service Funds**  
**For the Year Ended June 30, 2006**

|                                         | <u>Equipment<br/>Center</u> | <u>Self-<br/>Insurance</u> | <u>Information<br/>Services</u> | <u>Reproduction</u> | <u>Total</u>         |
|-----------------------------------------|-----------------------------|----------------------------|---------------------------------|---------------------|----------------------|
| <b>Operating revenues</b>               |                             |                            |                                 |                     |                      |
| Charges for services                    | \$ 4,671,787                | \$ 11,853,225              | \$ 1,307,577                    | \$ 299,975          | \$ 18,132,564        |
| Other                                   | 58,408                      | 1,291                      | 36                              | 582                 | 60,317               |
| Total operating revenues                | <u>4,730,195</u>            | <u>11,854,516</u>          | <u>1,307,613</u>                | <u>300,557</u>      | <u>18,192,881</u>    |
| <b>Operating expenses</b>               |                             |                            |                                 |                     |                      |
| Personal services                       | 1,228,505                   | 289,059                    | 716,040                         | 225,615             | 2,459,219            |
| Materials and supplies                  | 1,483,474                   | 10,130                     | 309,347                         | 98,487              | 1,901,438            |
| Contractual and other                   | 915,980                     | 9,446,755                  | 470,483                         | 46,080              | 10,879,298           |
| Depreciation                            | 595,474                     | -                          | 230,942                         | 3,285               | 829,701              |
| Total operating expenses                | <u>4,223,433</u>            | <u>9,745,944</u>           | <u>1,726,812</u>                | <u>373,467</u>      | <u>16,069,656</u>    |
| Operating income (loss)                 | 506,762                     | 2,108,572                  | (419,199)                       | (72,910)            | 2,123,225            |
| <b>Nonoperating revenues (expenses)</b> |                             |                            |                                 |                     |                      |
| Interest income                         | -                           | 113,409                    | -                               | -                   | 113,409              |
| Income (loss) before transfers          | 506,762                     | 2,221,981                  | (419,199)                       | (72,910)            | 2,236,634            |
| <b>Transfers in</b>                     | -                           | -                          | 471,468                         | 85,205              | 556,673              |
| <b>Transfers out</b>                    | <u>(785,989)</u>            | <u>(2,150)</u>             | <u>-</u>                        | <u>(450)</u>        | <u>(788,589)</u>     |
| Change in net assets                    | (279,227)                   | 2,219,831                  | 52,269                          | 11,845              | 2,004,718            |
| Net assets, beginning of year           | <u>3,860,219</u>            | <u>2,645,317</u>           | <u>1,517,292</u>                | <u>500,468</u>      | <u>8,523,296</u>     |
| <b>Net assets, end of year</b>          | <u>\$ 3,580,992</u>         | <u>\$ 4,865,148</u>        | <u>\$ 1,569,561</u>             | <u>\$ 512,313</u>   | <u>\$ 10,528,014</u> |

**CITY OF BATTLE CREEK, MICHIGAN**  
**Combining Statement of Cash Flows**  
**Internal Service Funds**  
**For the Year Ended June 30, 2006**

|                                                                                                | <u>Equipment<br/>Center</u> | <u>Self-<br/>Insurance</u> | <u>Information<br/>Services</u> | <u>Reproduction</u>       | <u>Total</u>                |
|------------------------------------------------------------------------------------------------|-----------------------------|----------------------------|---------------------------------|---------------------------|-----------------------------|
| <b>Cash flows from operating activities:</b>                                                   |                             |                            |                                 |                           |                             |
| Receipts from interfund services                                                               | \$ 4,730,195                | \$ 11,854,516              | \$ 1,307,613                    | \$ 300,557                | \$ 18,192,881               |
| Payments to suppliers/claimants                                                                | (2,470,944)                 | (10,329,447)               | (799,985)                       | (144,567)                 | (13,744,943)                |
| Payments to employees                                                                          | <u>(1,227,259)</u>          | <u>(343,480)</u>           | <u>(718,193)</u>                | <u>(224,366)</u>          | <u>(2,513,298)</u>          |
| Net cash provided by (used in) operating activities                                            | <u>1,031,992</u>            | <u>1,181,589</u>           | <u>(210,565)</u>                | <u>(68,376)</u>           | <u>1,934,640</u>            |
| <b>Cash flows from non-capital financing activities:</b>                                       |                             |                            |                                 |                           |                             |
| Transfers in                                                                                   | -                           | -                          | 471,468                         | 85,205                    | 556,673                     |
| Transfers out                                                                                  | <u>(785,989)</u>            | <u>(2,150)</u>             | <u>-</u>                        | <u>(450)</u>              | <u>(788,589)</u>            |
| Net cash provided by (used in) non-capital financing activities                                | <u>(785,989)</u>            | <u>(2,150)</u>             | <u>471,468</u>                  | <u>84,755</u>             | <u>(231,916)</u>            |
| <b>Cash flows from capital and related financing activities:</b>                               |                             |                            |                                 |                           |                             |
| Purchase of capital assets                                                                     | <u>(805,790)</u>            | <u>-</u>                   | <u>-</u>                        | <u>-</u>                  | <u>(805,790)</u>            |
| <b>Cash flows from investing activities:</b>                                                   |                             |                            |                                 |                           |                             |
| Interest received on investments                                                               | <u>-</u>                    | <u>74,135</u>              | <u>-</u>                        | <u>-</u>                  | <u>74,135</u>               |
| Net increase (decrease) in pooled cash and investments                                         | (559,787)                   | 1,253,574                  | 260,903                         | 16,379                    | 971,069                     |
| Pooled cash and investments, beginning of year                                                 | <u>1,701,594</u>            | <u>7,516,725</u>           | <u>971,978</u>                  | <u>518,221</u>            | <u>10,708,518</u>           |
| <b>Pooled cash and investments, end of year</b>                                                | <u><u>\$ 1,141,807</u></u>  | <u><u>\$ 8,770,299</u></u> | <u><u>\$ 1,232,881</u></u>      | <u><u>\$ 534,600</u></u>  | <u><u>\$ 11,679,587</u></u> |
| <b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b> |                             |                            |                                 |                           |                             |
| Operating income (loss)                                                                        | \$ 506,762                  | \$ 2,108,572               | \$ (419,199)                    | \$ (72,910)               | \$ 2,123,225                |
| Adjustments to reconcile operating income (loss) to net cash from operating activities:        |                             |                            |                                 |                           |                             |
| Depreciation                                                                                   | 595,474                     | -                          | 230,942                         | 3,285                     | 829,701                     |
| Changes in assets and liabilities:                                                             |                             |                            |                                 |                           |                             |
| Accounts receivable                                                                            | -                           | 16,092                     | -                               | -                         | 16,092                      |
| Inventories                                                                                    | (71,490)                    | -                          | 931                             | -                         | (70,559)                    |
| Prepaid items                                                                                  | -                           | (7,250)                    | (15,408)                        | -                         | (22,658)                    |
| Accrued payroll/compensated absences                                                           | 1,246                       | (54,421)                   | (2,153)                         | 1,249                     | (54,079)                    |
| Deferred revenue                                                                               | -                           | (76,837)                   | (5,678)                         | -                         | (82,515)                    |
| Claims payable                                                                                 | <u>-</u>                    | <u>(804,567)</u>           | <u>-</u>                        | <u>-</u>                  | <u>(804,567)</u>            |
| <b>Net cash provided by (used in) operating activities:</b>                                    | <u><u>\$ 1,031,992</u></u>  | <u><u>\$ 1,181,589</u></u> | <u><u>\$ (210,565)</u></u>      | <u><u>\$ (68,376)</u></u> | <u><u>\$ 1,934,640</u></u>  |

**CITY OF BATTLE CREEK, MICHIGAN**  
**Combining Statement of Fiduciary Net Assets**  
**Agency Funds**  
**June 30, 2006**

|                                 | <b>Contractors'<br/>Retention</b> | <b>Delinquent<br/>Personal<br/>Property<br/>Taxes</b> | <b>Summer<br/>Property Tax<br/>Collection</b> | <b>Winter<br/>Property Tax<br/>Collection</b> | <b>Total</b>        |
|---------------------------------|-----------------------------------|-------------------------------------------------------|-----------------------------------------------|-----------------------------------------------|---------------------|
| <b>Assets</b>                   |                                   |                                                       |                                               |                                               |                     |
| Pooled cash and investments     | \$ 156,442                        | \$ 26,153                                             | \$ -                                          | \$ -                                          | \$ 182,595          |
| Delinquent taxes receivable     | -                                 | 2,251,707                                             | -                                             | -                                             | 2,251,707           |
|                                 | <u>\$ 156,442</u>                 | <u>\$ 2,277,860</u>                                   | <u>\$ -</u>                                   | <u>\$ -</u>                                   | <u>\$ 2,434,302</u> |
| Total assets                    | <u>\$ 156,442</u>                 | <u>\$ 2,277,860</u>                                   | <u>\$ -</u>                                   | <u>\$ -</u>                                   | <u>\$ 2,434,302</u> |
| <b>Liabilities</b>              |                                   |                                                       |                                               |                                               |                     |
| Deposits and retentions payable | <u>\$ 156,442</u>                 | <u>\$ 2,277,860</u>                                   | <u>\$ -</u>                                   | <u>\$ -</u>                                   | <u>\$ 2,434,302</u> |

**CITY OF BATTLE CREEK, MICHIGAN**  
**Combining Statement of Changes in Assets and Liabilities**  
**Agency Funds**  
**For the Year Ended June 30, 2006**

|                                                      | <b>Balance<br/>June 30,<br/>2005</b> | <b>Additions</b> | <b>Deletions</b> | <b>Balance<br/>June 30,<br/>2006</b> |
|------------------------------------------------------|--------------------------------------|------------------|------------------|--------------------------------------|
| <b><u>CONTRACTOR'S RETENTION</u></b>                 |                                      |                  |                  |                                      |
| <b>Assets</b>                                        |                                      |                  |                  |                                      |
| Pooled cash and investments                          | \$ 443,059                           | \$ 1,103,775     | \$ 1,390,392     | \$ 156,442                           |
| <b>Liabilities</b>                                   |                                      |                  |                  |                                      |
| Deposits and retentions payable                      | \$ 443,059                           | \$ 1,103,775     | \$ 1,390,392     | \$ 156,442                           |
| <b><u>DELINQUENT PERSONAL<br/>PROPERTY TAXES</u></b> |                                      |                  |                  |                                      |
| <b>Assets</b>                                        |                                      |                  |                  |                                      |
| Pooled cash and investments                          | \$ 5,715                             | \$ 377,482       | \$ 357,044       | \$ 26,153                            |
| Delinquent taxes receivable                          | 2,884,728                            | 292,443          | 925,464          | 2,251,707                            |
|                                                      | \$ 2,890,443                         | \$ 669,925       | \$ 1,282,508     | \$ 2,277,860                         |
| <b>Liabilities</b>                                   |                                      |                  |                  |                                      |
| Deposits and retentions payable                      | \$ 2,890,443                         | \$ 669,925       | \$ 1,282,508     | \$ 2,277,860                         |
| <b><u>SUMMER PROPERTY<br/>TAX COLLECTION</u></b>     |                                      |                  |                  |                                      |
| <b>Assets</b>                                        |                                      |                  |                  |                                      |
| Pooled cash and investments                          | \$ -                                 | \$ 69,243,959    | \$ 69,243,959    | \$ -                                 |
| <b>Liabilities</b>                                   |                                      |                  |                  |                                      |
| Deposits and retentions payable                      | \$ -                                 | \$ 69,243,959    | \$ 69,243,959    | \$ -                                 |

Continued...

**CITY OF BATTLE CREEK, MICHIGAN**  
**Combining Statement of Changes in Assets and Liabilities**  
**Agency Funds (Concluded)**  
**For the Year Ended June 30, 2006**

|                                                  | <b>Balance<br/>June 30,<br/>2005</b> | <b>Additions</b> | <b>Deletions</b> | <b>Balance<br/>June 30,<br/>2006</b> |
|--------------------------------------------------|--------------------------------------|------------------|------------------|--------------------------------------|
| <b><u>WINTER PROPERTY<br/>TAX COLLECTION</u></b> |                                      |                  |                  |                                      |
| <b>Assets</b>                                    |                                      |                  |                  |                                      |
| Pooled cash and investments                      | \$ -                                 | \$ 42,745,514    | \$ 42,745,514    | \$ -                                 |
| <b>Liabilities</b>                               |                                      |                  |                  |                                      |
| Deposits and retentions payable                  | \$ -                                 | \$ 42,745,514    | \$ 42,745,514    | \$ -                                 |
| <b><u>TOTALS - ALL AGENCY FUNDS</u></b>          |                                      |                  |                  |                                      |
| <b>Assets</b>                                    |                                      |                  |                  |                                      |
| Pooled cash and investments                      | \$ 448,774                           | \$ 113,470,730   | \$ 113,736,909   | \$ 182,595                           |
| Delinquent taxes receivable                      | 2,884,728                            | 292,443          | 925,464          | 2,251,707                            |
| Total assets                                     | \$ 3,333,502                         | \$ 113,763,173   | \$ 114,662,373   | \$ 2,434,302                         |
| <b>Liabilities</b>                               |                                      |                  |                  |                                      |
| Deposits and retentions payable                  | \$ 3,333,502                         | \$ 113,763,173   | \$ 114,662,373   | \$ 2,434,302                         |



# STATISTICAL SECTION

**CITY OF BATTLE CREEK**  
**Net Assets by Component**  
**Last Five Years**  
*(accrual basis of accounting)*

|                                                 | <u>2002</u>           | <u>2003</u>           | <u>2004</u>           | <u>2005</u>           | <u>2006</u>           |
|-------------------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| <b>Governmental activities</b>                  |                       |                       |                       |                       |                       |
| Invested in capital assets, net of related debt | \$ 200,592,871        | \$ 204,894,306        | \$ 205,676,324        | \$ 205,272,983        | \$ 209,058,967        |
| Restricted                                      | 21,700,025            | 16,593,282            | 11,246,239            | 6,909,177             | 5,837,903             |
| Unrestricted                                    | 46,847,818            | 37,053,427            | 36,237,269            | 39,004,878            | 38,237,634            |
| Total governmental activities net assets        | <u>\$ 269,140,714</u> | <u>\$ 258,541,015</u> | <u>\$ 253,159,832</u> | <u>\$ 251,187,038</u> | <u>\$ 253,134,504</u> |
| <b>Business-type activities</b>                 |                       |                       |                       |                       |                       |
| Invested in capital assets, net of related debt | \$ 91,947,680         | \$ 95,239,058         | \$ 98,756,920         | \$ 101,991,510        | \$ 98,873,436         |
| Unrestricted                                    | 30,351,841            | 32,629,898            | 24,014,234            | 20,923,570            | 20,617,951            |
| Total business-type activities net assets       | <u>\$ 122,299,521</u> | <u>\$ 127,868,956</u> | <u>\$ 122,771,154</u> | <u>\$ 122,915,080</u> | <u>\$ 119,491,387</u> |
| <b>Primary government</b>                       |                       |                       |                       |                       |                       |
| Invested in capital assets, net of related debt | \$ 292,540,551        | \$ 204,894,306        | \$ 205,676,324        | \$ 205,272,983        | \$ 209,058,967        |
| Restricted                                      | 21,700,025            | 111,832,340           | 110,003,159           | 108,900,687           | 104,711,339           |
| Unrestricted                                    | 77,199,659            | 69,683,325            | 60,251,503            | 59,928,448            | 58,855,585            |
| Total primary government net assets             | <u>\$ 391,440,235</u> | <u>\$ 386,409,971</u> | <u>\$ 375,930,986</u> | <u>\$ 374,102,118</u> | <u>\$ 372,625,891</u> |

Source: City of Battle Creek Finance Department

## CITY OF BATTLE CREEK

### Changes in Net Assets

#### Last Five Years

*(accrual basis of accounting)*

|                                                 | 2002         | 2003         | 2004         | 2005         | 2006          |
|-------------------------------------------------|--------------|--------------|--------------|--------------|---------------|
| <b>Expenses</b>                                 |              |              |              |              |               |
| Governmental activities:                        |              |              |              |              |               |
| General government                              | \$ 8,721,372 | \$ 7,775,052 | \$ 8,285,242 | \$ 8,251,417 | \$ 10,138,832 |
| Public safety                                   | 22,079,365   | 24,497,814   | 25,996,442   | 24,912,304   | 23,052,841    |
| Public works                                    | 2,147,763    | 2,612,061    | 2,263,112    | 2,425,660    | 1,721,053     |
| Highways and streets                            | 9,428,177    | 9,916,209    | 10,799,830   | 10,253,704   | 10,648,811    |
| Parks and recreation                            | 6,621,368    | 7,212,347    | 6,879,916    | 10,103,614   | 7,528,251     |
| Community development                           | 2,167,248    | 2,199,310    | 2,834,085    | 2,871,471    | 2,602,331     |
| Unallocated                                     | 2,141,416    | 1,975,812    | -            | -            | -             |
| Interest on long-term debt                      | 913,762      | 1,171,284    | 1,130,642    | 1,099,030    | 1,079,398     |
| Total governmental activities expenses          | 54,220,471   | 57,359,889   | 58,189,269   | 59,917,200   | 56,771,517    |
| Business-type activities:                       |              |              |              |              |               |
| Wastewater                                      | 12,621,533   | 13,587,398   | 14,090,224   | 14,103,654   | 14,598,187    |
| Water                                           | 7,066,844    | 7,112,747    | 7,196,409    | 7,225,258    | 6,897,186     |
| Public transit                                  | 3,860,075    | 4,046,023    | 4,064,196    | 3,887,041    | 3,724,879     |
| Solid waste collection                          | 2,138,649    | 2,068,331    | 2,103,397    | 2,184,244    | 2,292,562     |
| Airport                                         | 1,442,456    | 1,653,490    | 1,666,592    | 1,841,153    | 1,991,606     |
| Golf course                                     | 1,106,054    | 1,159,880    | 1,271,468    | 1,170,632    | 1,199,704     |
| Parking                                         | 585,789      | 1,012,724    | 1,337,896    | 1,309,483    | 1,021,337     |
| Economic development                            | 375,653      | 118,006      | 260,693      | 218,028      | 764,690       |
| Total business-type activities expenses         | 29,197,053   | 30,758,599   | 31,990,875   | 31,939,493   | 32,490,151    |
| Total primary government expenses               | 83,417,524   | 88,118,488   | 90,180,144   | 91,856,693   | 89,261,668    |
| <b>Program revenues</b>                         |              |              |              |              |               |
| Governmental activities:                        |              |              |              |              |               |
| Charges for services:                           |              |              |              |              |               |
| General government                              | 1,928,130    | 2,056,731    | 2,566,013    | 2,697,742    | 2,596,709     |
| Public safety                                   | 2,224,102    | 2,310,934    | 2,245,589    | 1,842,771    | 1,927,079     |
| Public works                                    | 285,346      | 223,024      | 248,740      | 344,638      | 152,295       |
| Highways and streets                            | 2,416        | -            | -            | 103          | 463           |
| Parks and recreation                            | 1,837,757    | 3,046,573    | 3,124,366    | 3,277,043    | 3,428,780     |
| Community development                           | -            | -            | 119,830      | 147,600      | 80,821        |
| Unallocated                                     | 474,019      | 471,617      | -            | -            | -             |
| Operating grants and contributions              | 11,115,082   | 11,327,666   | 10,156,505   | 10,625,956   | 12,363,163    |
| Capital grants and contributions                | 2,488,581    | 732,056      | 1,007,638    | 3,271,450    | 2,371,353     |
| Total governmental activities program revenues  | 20,355,433   | 20,168,601   | 19,468,681   | 22,207,303   | 22,920,663    |
| Business-type activities:                       |              |              |              |              |               |
| Charges for services:                           |              |              |              |              |               |
| Wastewater                                      | 10,499,560   | 10,198,910   | 9,975,535    | 10,265,249   | 9,726,868     |
| Water                                           | 6,520,621    | 7,193,526    | 7,090,160    | 7,460,662    | 7,337,571     |
| Public transit                                  | 369,554      | 384,833      | 391,899      | 392,458      | 398,011       |
| Solid waste collection                          | 2,050,052    | 2,139,311    | 2,171,931    | 2,249,615    | 2,250,880     |
| Airport                                         | 938,281      | 1,006,380    | 1,096,801    | 1,070,586    | 1,083,875     |
| Golf course                                     | 821,319      | 874,964      | 1,216,352    | 1,161,808    | 1,187,918     |
| Parking                                         | 585,750      | 693,830      | 689,162      | 674,694      | 659,630       |
| Economic development                            | -            | 336,865      | 163,715      | 332,903      | 330,893       |
| Operating grants and contributions              | 2,706,128    | 2,604,918    | 2,837,617    | 2,567,262    | 2,408,957     |
| Capital grants and contributions                | 590,912      | 959,388      | 1,333,423    | 4,909,860    | 2,696,895     |
| Total business-type activities program revenues | 25,082,177   | 26,392,925   | 26,966,595   | 31,085,097   | 28,081,498    |
| Total primary government program revenues       | 45,437,610   | 46,561,526   | 46,435,276   | 53,292,400   | 51,002,161    |
| <b>Net (Expense)/Revenue</b>                    |              |              |              |              |               |
| Government activities                           | (33,865,038) | (37,191,288) | (38,720,588) | (37,709,897) | (33,850,854)  |
| Business-type activities                        | (4,114,876)  | (4,365,674)  | (5,024,280)  | (854,396)    | (4,408,653)   |
| Total primary government net expense            | (37,979,914) | (41,556,962) | (43,744,868) | (38,564,293) | (38,259,507)  |

Continued...

**CITY OF BATTLE CREEK**  
**Changes in Net Assets (Concluded)**  
**Last Five Fiscal Years**  
*(accrual basis of accounting)*

|                                                                 | <u>2002</u>           | <u>2003</u>           | <u>2004</u>            | <u>2005</u>           | <u>2006</u>           |
|-----------------------------------------------------------------|-----------------------|-----------------------|------------------------|-----------------------|-----------------------|
| <b>General Revenues</b>                                         |                       |                       |                        |                       |                       |
| Governmental activities:                                        |                       |                       |                        |                       |                       |
| General revenues:                                               |                       |                       |                        |                       |                       |
| Property taxes                                                  | \$ 12,123,163         | \$ 12,375,964         | \$ 12,764,779          | \$ 13,579,207         | \$ 14,580,358         |
| Income taxes                                                    | 11,268,853            | 11,664,194            | 12,679,119             | 13,942,683            | 14,450,183            |
| Grants and contributions not<br>restricted to specific programs | 7,748,643             | 7,077,172             | 6,358,441              | 6,291,976             | 6,221,293             |
| Unrestricted investment earnings                                | 2,275,693             | 2,717,405             | 1,894,373              | 1,716,088             | 1,241,966             |
| Gain on sale of capital assets                                  | 201,132               | -                     | -                      | -                     | -                     |
| Transfers - internal activities                                 | (281,246)             | 959,885               | (357,307)              | (619,138)             | (695,480)             |
| Total governmental activities                                   | <u>33,336,238</u>     | <u>34,794,620</u>     | <u>33,339,405</u>      | <u>34,910,816</u>     | <u>35,798,320</u>     |
| Business-type activities:                                       |                       |                       |                        |                       |                       |
| Unrestricted investment earnings                                | 980,302               | 1,844,066             | (430,829)              | 379,185               | 289,480               |
| Gain on sale of capital assets                                  | 1,805                 | 554                   | -                      | -                     | -                     |
| Transfers - internal activities                                 | 281,246               | (959,885)             | 357,307                | 619,138               | 695,480               |
| Total business-type activities                                  | <u>1,263,353</u>      | <u>884,735</u>        | <u>(73,522)</u>        | <u>998,323</u>        | <u>984,960</u>        |
| Total primary government                                        | <u>34,599,591</u>     | <u>35,679,355</u>     | <u>33,265,883</u>      | <u>35,909,139</u>     | <u>36,783,280</u>     |
| <b>Change in Net Assets</b>                                     |                       |                       |                        |                       |                       |
| Government activities                                           | (528,800)             | (2,396,668)           | (5,381,183)            | (2,799,081)           | 1,947,466             |
| Business-type activities                                        | <u>(2,851,523)</u>    | <u>(3,480,939)</u>    | <u>(5,097,802)</u>     | <u>143,927</u>        | <u>(3,423,693)</u>    |
| Total primary government                                        | <u>\$ (3,380,323)</u> | <u>\$ (5,877,607)</u> | <u>\$ (10,478,985)</u> | <u>\$ (2,655,154)</u> | <u>\$ (1,476,227)</u> |

Source: City of Battle Creek Finance Department

**CITY OF BATTLE CREEK**  
**Fund Balances - Governmental Funds**  
**Last Five Years**  
*(modified accrual basis of accounting)*

|                                         | <u>2002</u>          | <u>2003</u>          | <u>2004</u>          | <u>2005</u>          | <u>2006</u>          |
|-----------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>General Fund</b>                     |                      |                      |                      |                      |                      |
| Reserved                                | \$ 812,665           | \$ 783,191           | \$ 341,345           | \$ 142,656           | \$ 195,796           |
| Unreserved                              | <u>11,810,118</u>    | <u>11,744,939</u>    | <u>11,187,954</u>    | <u>11,050,908</u>    | <u>9,574,180</u>     |
| Total general fund                      | <u>\$ 12,622,783</u> | <u>\$ 12,528,130</u> | <u>\$ 11,529,299</u> | <u>\$ 11,193,564</u> | <u>\$ 9,769,976</u>  |
| <br><b>All Other Governmental Funds</b> |                      |                      |                      |                      |                      |
| Reserved                                | \$ 14,756,133        | \$ 2,421,271         | \$ 2,185,167         | \$ 2,304,993         | \$ 2,232,709         |
| Unreserved, reported in:                |                      |                      |                      |                      |                      |
| Special revenue funds                   | 13,212,176           | 5,269,042            | 4,485,357            | 3,126,389            | 2,714,722            |
| Debt service funds                      | -                    | 1,007,233            | 1,041,626            | 1,052,207            | 1,052,660            |
| Capital projects funds                  | -                    | 5,912,620            | 3,819,722            | 2,896,070            | 5,010,124            |
| Permanent funds                         | <u>1,730,933</u>     | <u>3,212,654</u>     | <u>2,731,820</u>     | <u>1,560,154</u>     | <u>1,370,131</u>     |
| Total all other governmental funds      | <u>\$ 29,699,242</u> | <u>\$ 17,822,820</u> | <u>\$ 14,263,692</u> | <u>\$ 10,939,813</u> | <u>\$ 12,380,346</u> |

Source: City of Battle Creek Finance Department

**CITY OF BATTLE CREEK**  
**Changes in Fund Balances - Governmental Funds (1)**  
**Last Ten Years**  
*(modified accrual basis of accounting)*

|                                                          | <b>1997</b>         | <b>1998</b>         | <b>1999</b>         | <b>2000</b>        | <b>2001</b>         |
|----------------------------------------------------------|---------------------|---------------------|---------------------|--------------------|---------------------|
| <b>Revenues</b>                                          |                     |                     |                     |                    |                     |
| Income taxes                                             | \$ 11,425,562       | \$ 12,773,076       | \$ 13,106,057       | \$ 13,175,710      | \$ 12,816,147       |
| Property taxes                                           | 10,908,757          | 11,030,082          | 11,339,692          | 11,580,675         | 12,062,629          |
| Licenses and permits                                     | 761,952             | 909,554             | 1,149,311           | 1,102,395          | 1,159,829           |
| Intergovernmental                                        | 13,637,893          | 15,217,030          | 15,036,558          | 14,881,845         | 15,994,041          |
| Charges for services                                     | 816,319             | 2,810,421           | 3,199,131           | 3,406,102          | 3,399,540           |
| Fines and forfeitures                                    | 357,636             | 353,938             | 331,828             | 291,643            | 314,206             |
| Interest                                                 | 2,075,948           | 2,433,035           | 2,490,931           | 2,814,628          | 2,321,779           |
| Other                                                    | 4,120,003           | 4,039,367           | 4,160,814           | 2,992,563          | 3,540,096           |
| Total revenues                                           | <u>44,104,070</u>   | <u>49,566,503</u>   | <u>50,814,322</u>   | <u>50,245,561</u>  | <u>51,608,267</u>   |
| <b>Expenditures</b>                                      |                     |                     |                     |                    |                     |
| General government                                       | 5,831,330           | 6,444,438           | 7,284,862           | 8,076,320          | 6,943,680           |
| Public safety                                            | 18,101,786          | 20,188,292          | 20,815,711          | 21,389,862         | 21,080,470          |
| Public works                                             | 1,722,350           | 2,436,406           | 2,162,846           | 2,185,530          | 2,003,783           |
| Highway and streets                                      | 4,098,117           | 3,829,679           | 4,153,923           | 3,631,821          | 4,308,684           |
| Parks and recreation                                     | 3,518,284           | 6,860,737           | 5,113,834           | 5,547,823          | 4,552,923           |
| Community development                                    | 2,420,446           | 1,928,748           | 2,400,630           | 1,671,874          | 2,541,710           |
| Unallocated                                              | 3,442,121           | 725,711             | 1,050,544           | 1,287,802          | 1,791,237           |
| Capital outlay                                           | 503,310             | 1,191,917           | 729,289             | 847,075            | 125,943             |
| Debt service:                                            |                     |                     |                     |                    |                     |
| Principal retirement                                     | 1,642,884           | 1,678,331           | 1,911,454           | 1,428,000          | 1,196,000           |
| Interest                                                 | 1,245,466           | 1,105,816           | 1,145,775           | 922,237            | 782,931             |
| Total expenditures                                       | <u>42,526,094</u>   | <u>46,390,075</u>   | <u>46,768,868</u>   | <u>46,988,344</u>  | <u>45,327,361</u>   |
| Revenues over (under) expenditures                       | <u>1,577,976</u>    | <u>3,176,428</u>    | <u>4,045,454</u>    | <u>3,257,217</u>   | <u>6,280,906</u>    |
| <b>Other financing sources (uses)</b>                    |                     |                     |                     |                    |                     |
| Issuance of bonds                                        | 372,900             | 1,300,000           | 995,000             | -                  | -                   |
| Bond issuance costs                                      | -                   | -                   | -                   | -                  | -                   |
| Proceeds from loan                                       | -                   | -                   | -                   | -                  | -                   |
| Distribution of loan                                     | -                   | -                   | -                   | -                  | -                   |
| Premium on bonds                                         | -                   | -                   | -                   | -                  | -                   |
| Proceeds from sales of capital assets                    | -                   | -                   | 353,878             | 289,098            | 350,429             |
| Transfers in                                             | 4,549,264           | 4,585,664           | 5,369,029           | 3,978,870          | 3,353,227           |
| Transfers out                                            | (6,688,415)         | (6,667,195)         | (7,704,901)         | (6,682,847)        | (6,799,314)         |
| Total other financing sources (uses)                     | <u>(1,766,251)</u>  | <u>(781,531)</u>    | <u>(986,994)</u>    | <u>(2,414,879)</u> | <u>(3,095,658)</u>  |
| <b>Net changes in fund balances</b>                      | <u>\$ (188,275)</u> | <u>\$ 2,394,897</u> | <u>\$ 3,058,460</u> | <u>\$ 842,338</u>  | <u>\$ 3,185,248</u> |
| Debt services as a percentage of noncapital expenditures | <u>6.9%</u>         | <u>6.2%</u>         | <u>6.6%</u>         | <u>5.1%</u>        | <u>4.4%</u>         |

(1) Includes general, special revenue and debt service funds through June 30, 2001; all governmental funds thereafter.

Source: City of Battle Creek Finance Department

**Schedule 4**  
**UNAUDITED**

| <b>2002</b>         | <b>2003</b>           | <b>2004</b>           | <b>2005</b>           | <b>2006</b>        |
|---------------------|-----------------------|-----------------------|-----------------------|--------------------|
| \$ 11,268,853       | \$ 11,664,194         | \$ 12,679,119         | \$ 13,942,683         | \$ 14,586,873      |
| 12,124,480          | 12,458,369            | 12,790,559            | 13,591,892            | 14,450,183         |
| 1,139,760           | 1,106,290             | 1,020,676             | 1,166,882             | 1,084,527          |
| 16,936,207          | 17,264,191            | 16,029,559            | 16,267,323            | 17,709,598         |
| 4,998,638           | 5,078,612             | 5,057,747             | 4,659,697             | 4,842,463          |
| 271,352             | 269,554               | 227,640               | 213,890               | 250,683            |
| 2,186,307           | 2,569,257             | 1,842,748             | 1,659,348             | 1,177,345          |
| 3,817,817           | 3,798,753             | 3,649,270             | 5,672,269             | 4,100,007          |
| <u>52,743,414</u>   | <u>54,209,220</u>     | <u>53,297,318</u>     | <u>57,173,984</u>     | <u>58,201,679</u>  |
| 8,547,701           | 7,711,674             | 7,023,203             | 7,123,031             | 8,841,806          |
| 22,028,962          | 24,293,085            | 25,598,627            | 25,239,131            | 25,551,655         |
| 2,084,977           | 2,113,230             | 1,956,879             | 2,068,952             | 1,480,494          |
| 8,098,240           | 8,888,758             | 10,409,523            | 9,768,176             | 10,760,834         |
| 5,732,642           | 6,212,707             | 5,862,541             | 9,277,231             | 7,503,210          |
| 2,384,841           | 2,440,178             | 2,133,178             | 2,080,063             | 1,781,415          |
| 2,107,582           | 2,084,948             | 2,069,015             | 2,286,466             | 2,331,588          |
| 3,349,551           | 8,673,391             | 595,425               | 92,816                | 1,199,315          |
| 1,040,000           | 1,205,000             | 1,535,000             | 1,575,000             | 1,630,000          |
| 759,139             | 1,187,343             | 1,161,539             | 1,121,701             | 1,091,107          |
| <u>56,133,635</u>   | <u>64,810,314</u>     | <u>58,344,930</u>     | <u>60,632,567</u>     | <u>62,171,424</u>  |
| <u>(3,390,221)</u>  | <u>(10,601,094)</u>   | <u>(5,047,612)</u>    | <u>(3,458,583)</u>    | <u>(3,969,745)</u> |
| 10,000,000          | 3,070,000             | -                     | -                     | 3,819,000          |
| (202,494)           | -                     | -                     | -                     | -                  |
| 312,656             | -                     | -                     | -                     | -                  |
| (312,656)           | -                     | -                     | -                     | -                  |
| -                   | 50,034                | -                     | -                     | -                  |
| 646,279             | 486,720               | 439,309               | 596,284               | 631,254            |
| 5,020,295           | 8,053,795             | 6,252,501             | 10,968,311            | 8,896,090          |
| <u>(5,738,654)</u>  | <u>(6,774,861)</u>    | <u>(6,202,157)</u>    | <u>(11,291,913)</u>   | <u>(9,359,654)</u> |
| <u>9,725,426</u>    | <u>4,885,688</u>      | <u>489,653</u>        | <u>272,682</u>        | <u>3,986,690</u>   |
| <u>\$ 6,335,205</u> | <u>\$ (5,715,406)</u> | <u>\$ (4,557,959)</u> | <u>\$ (3,185,901)</u> | <u>\$ 16,945</u>   |
| <u>3.4%</u>         | <u>4.3%</u>           | <u>4.7%</u>           | <u>4.5%</u>           | <u>4.5%</u>        |

**CITY OF BATTLE CREEK**  
**Changes in Fund Balances - General Fund**  
**Last Ten Years**  
*(modified accrual basis of accounting)*

|                                             | <b>1997</b>         | <b>1998</b>         | <b>1999</b>        | <b>2000</b>         | <b>2001</b>         |
|---------------------------------------------|---------------------|---------------------|--------------------|---------------------|---------------------|
| <b>Revenues</b>                             |                     |                     |                    |                     |                     |
| Income taxes                                | \$ 11,425,562       | \$ 12,773,076       | \$ 13,106,057      | \$ 13,175,710       | \$ 12,816,147       |
| Property taxes                              | 11,128,785          | 10,857,680          | 11,194,524         | 11,477,762          | 11,669,181          |
| Licenses and permits                        | 761,952             | 909,554             | 1,149,311          | 1,102,395           | 1,159,829           |
| Intergovernmental                           | 6,469,515           | 7,288,705           | 7,487,847          | 7,666,588           | 8,105,478           |
| Charges for services                        | 810,850             | 1,612,085           | 3,199,131          | 3,406,102           | 3,399,540           |
| Fines and forfeitures                       | 357,636             | 353,938             | 331,828            | 291,643             | 314,206             |
| Interest                                    | 1,752,205           | 1,850,225           | 1,667,211          | 1,857,701           | 1,540,072           |
| Loan collection and other                   | 2,228,326           | 2,946,401           | 1,572,596          | 1,224,160           | 1,738,143           |
| <b>Total revenues</b>                       | <b>34,934,831</b>   | <b>38,591,664</b>   | <b>39,708,505</b>  | <b>40,202,061</b>   | <b>40,742,596</b>   |
| <b>Expenditures</b>                         |                     |                     |                    |                     |                     |
| General government                          | 5,297,400           | 5,873,153           | 6,469,975          | 6,703,664           | 6,157,669           |
| Public safety                               | 18,101,786          | 20,188,292          | 20,815,711         | 21,389,862          | 21,080,470          |
| Public works                                | 1,722,350           | 2,436,406           | 2,162,846          | 2,185,530           | 2,003,783           |
| Parks and recreation                        | 3,239,800           | 4,469,149           | 4,830,242          | 4,719,790           | 4,372,559           |
| Unallocated                                 | 3,442,121           | 725,711             | 1,050,544          | 1,287,802           | 1,791,237           |
| Debt service:                               |                     |                     |                    |                     |                     |
| Principal retirement                        | -                   | -                   | 189,912            | 275,000             | 180,000             |
| Interest                                    | -                   | -                   | 62,387             | 72,100              | 11,995              |
| <b>Total expenditures</b>                   | <b>31,803,457</b>   | <b>33,692,711</b>   | <b>35,581,617</b>  | <b>36,633,748</b>   | <b>35,597,713</b>   |
| <b>Revenues over (under) expenditures</b>   | <b>3,131,374</b>    | <b>4,898,953</b>    | <b>4,126,888</b>   | <b>3,568,313</b>    | <b>5,144,883</b>    |
| <b>Other financing sources (uses)</b>       |                     |                     |                    |                     |                     |
| Transfers in                                | 1,264,553           | 1,388,550           | 1,458,843          | 1,386,289           | 1,097,463           |
| Proceeds from notes                         | 295,000             | -                   | 995,000            | -                   | -                   |
| Sale of land and other assets               | 260,469             | 452,278             | 353,878            | 321,068             | 350,429             |
| Transfers out                               | (5,070,955)         | (5,477,339)         | (6,223,792)        | (5,470,893)         | (5,140,788)         |
| <b>Total other financing sources (uses)</b> | <b>(3,250,933)</b>  | <b>(3,636,511)</b>  | <b>(3,416,071)</b> | <b>(3,763,536)</b>  | <b>(3,692,896)</b>  |
| <b>Net changes in fund balances</b>         | <b>\$ (119,559)</b> | <b>\$ 1,262,442</b> | <b>\$ 710,817</b>  | <b>\$ (195,223)</b> | <b>\$ 1,451,987</b> |

Source: City of Battle Creek Finance Department



**Schedule 5**  
**UNAUDITED**

| <b>2002</b>         | <b>2003</b>         | <b>2004</b>         | <b>2005</b>         | <b>2006</b>           |
|---------------------|---------------------|---------------------|---------------------|-----------------------|
| \$ 11,268,853       | \$ 11,664,194       | \$ 12,679,119       | \$ 13,942,683       | \$ 14,450,183         |
| 12,123,163          | 12,375,964          | 12,764,779          | 13,579,207          | 14,580,358            |
| 1,139,760           | 1,106,290           | 1,020,676           | 1,166,882           | 1,084,527             |
| 8,921,503           | 8,244,720           | 7,572,346           | 7,701,623           | 7,804,482             |
| 3,171,193           | 3,192,006           | 3,212,899           | 2,522,682           | 2,518,560             |
| 271,352             | 269,554             | 227,640             | 213,890             | 250,683               |
| 1,210,131           | 1,953,088           | 1,646,768           | 1,474,106           | 1,047,649             |
| 1,525,251           | 1,567,952           | 1,965,889           | 1,849,970           | 1,700,687             |
| <u>39,631,206</u>   | <u>40,373,768</u>   | <u>41,090,116</u>   | <u>42,451,043</u>   | <u>43,437,129</u>     |
| 6,701,364           | 6,837,935           | 6,713,395           | 6,655,187           | 6,835,195             |
| 21,529,192          | 22,707,325          | 24,658,069          | 23,855,387          | 24,207,356            |
| 2,084,977           | 2,113,230           | 1,956,879           | 2,068,952           | 1,480,494             |
| 4,089,332           | 4,383,243           | 4,057,445           | 4,349,374           | 4,155,768             |
| 2,043,309           | 1,986,340           | 1,976,171           | 2,022,281           | 2,082,499             |
| -                   | -                   | -                   | -                   | -                     |
| <u>-</u>            | <u>-</u>            | <u>-</u>            | <u>-</u>            | <u>-</u>              |
| <u>36,448,174</u>   | <u>38,028,073</u>   | <u>39,361,959</u>   | <u>38,951,181</u>   | <u>38,761,312</u>     |
| <u>3,183,032</u>    | <u>2,345,695</u>    | <u>1,728,157</u>    | <u>3,499,862</u>    | <u>4,675,817</u>      |
| -                   | 108,553             | 551,529             | 942,459             | 46,244                |
| -                   | -                   | -                   | -                   | -                     |
| 646,279             | 486,720             | 439,309             | 578,844             | 631,254               |
| <u>(4,617,982)</u>  | <u>(3,882,963)</u>  | <u>(3,717,826)</u>  | <u>(5,512,369)</u>  | <u>(6,776,903)</u>    |
| <u>(3,971,703)</u>  | <u>(3,287,690)</u>  | <u>(2,726,988)</u>  | <u>(3,991,066)</u>  | <u>(6,099,405)</u>    |
| <u>\$ (788,671)</u> | <u>\$ (941,995)</u> | <u>\$ (998,831)</u> | <u>\$ (491,204)</u> | <u>\$ (1,423,588)</u> |

**CITY OF BATTLE CREEK**  
**Assessed and Actual Value of Taxable Property**  
**Last Ten Years**  
*(in thousands of dollars)*

| Fiscal<br>Year Ended<br>June 30, | Tax<br>Year | Valued as of<br>December 31, | (1)<br>Total<br>Assessed Value<br>(S.E.V.) | Taxable Value    |                      |                                 |                                 |                                           | Total            | Total Direct<br>Tax Rate |
|----------------------------------|-------------|------------------------------|--------------------------------------------|------------------|----------------------|---------------------------------|---------------------------------|-------------------------------------------|------------------|--------------------------|
|                                  |             |                              |                                            | Real<br>Property | Personal<br>Property | (2)<br>Commercial<br>Facilities | (2)<br>Industrial<br>Facilities | (2)<br>Neighborhood<br>Enterprise<br>Zone |                  |                          |
| 2006                             | 2005        | 2004                         | \$ 1,744,721,015                           | \$ 1,049,158,197 | \$ 318,597,419       | \$ -                            | \$ 184,621,661                  | \$ 876,280                                | \$ 1,553,253,557 | 13.9210                  |
| 2005                             | 2004        | 2003                         | 1,548,617,763                              | 1,018,660,566    | 345,022,818          | -                               | 152,170,725                     | 876,253                                   | 1,516,730,362    | 13.0000                  |
| 2004                             | 2003        | 2002                         | 1,507,990,443                              | 978,470,914      | 351,059,132          | -                               | 146,248,110                     | 865,870                                   | 1,476,644,026    | 13.0000                  |
| 2003                             | 2002        | 2001                         | 1,417,683,480                              | 925,948,123      | 329,676,688          | -                               | 185,519,689                     | 878,061                                   | 1,442,022,561    | 13.0000                  |
| 2002                             | 2001        | 2000                         | 1,353,833,445                              | 881,764,954      | 311,885,594          | -                               | 193,004,493                     | 850,235                                   | 1,387,505,276    | 13.0000                  |
| 2001                             | 2000        | 1999                         | 1,255,270,300                              | 822,394,550      | 289,680,550          | -                               | 240,160,900                     | 812,450                                   | 1,353,048,450    | 13.0000                  |
| 2000                             | 1999        | 1998                         | 1,191,592,453                              | 780,174,210      | 295,866,950          | -                               | 293,250,150                     | 774,750                                   | 1,370,066,060    | 13.0000                  |
| 1999                             | 1998        | 1997                         | 1,086,196,728                              | 729,698,620      | 268,354,400          | -                               | 348,992,425                     | 687,925                                   | 1,347,733,370    | 13.0310                  |
| 1998                             | 1997        | 1996                         | 1,020,379,052                              | 696,971,736      | 266,251,392          | 356,450                         | 318,030,675                     | 665,125                                   | 1,282,275,378    | 13.2670                  |
| 1997                             | 1996        | 1995                         | 931,611,950                                | 662,952,216      | 234,136,300          | 483,175                         | 303,273,175                     | 508,375                                   | 1,201,353,241    | 13.4960                  |

**Notes:** Property in the city of Battle Creek is assessed every year representing approximately 50% of the actual value for all real and personal property.

Taxable value is the figure used to calculate property taxes. The taxable value is limited to annual increases of 5% or the state of Michigan

Consumer Price Index, whichever is less, except if a property is sold. The assessed value becomes the taxable value in the year following a sale.

Property taxes are levied July 1 of the succeeding fiscal year based on taxable values as of December 31.

(1) Assessed value is ad valorem property only and does not include tax abated properties (see #2 below).

(2) Represents current values of tax abated properties.

**CITY OF BATTLE CREEK**  
**Direct and Overlapping Property Tax Rates**  
**Last Ten Years**  
*(rate per \$1,000 of taxable value)*

| Fiscal<br>Year Ended<br>June 30, | Levied<br>July 1, | (1)<br>City of Battle Creek |        |         | Battle<br>Creek<br>Public<br>Schools | State<br>Education<br>Tax | Calhoun<br>Intermediate<br>School<br>District | Kellogg<br>Community<br>College | District<br>Library | County | Totals            |                  |
|----------------------------------|-------------------|-----------------------------|--------|---------|--------------------------------------|---------------------------|-----------------------------------------------|---------------------------------|---------------------|--------|-------------------|------------------|
|                                  |                   | Operating                   | Debt   | Pension |                                      |                           |                                               |                                 |                     |        | Non-<br>Homestead | (2)<br>Homestead |
| 2006                             | 2005              | 11.2300                     | -      | 2.6910  | 20.0000                              | 6.0000                    | 6.2057                                        | 3.7106                          | 2.0000              | 6.3713 | 58.2086           | 40.2086          |
| 2005                             | 2004              | 10.4530                     | -      | 2.5470  | 20.0000                              | 6.0000                    | 6.2057                                        | 3.7106                          | 2.0000              | 6.3713 | 57.2876           | 39.2876          |
| 2004                             | 2003              | 10.1430                     | -      | 2.8570  | 20.0000                              | 5.0000                    | 6.2057                                        | 3.7106                          | 2.0000              | 6.6513 | 56.5676           | 38.5676          |
| 2003                             | 2002              | 11.3200                     | -      | 1.6800  | 20.0000                              | 6.0000                    | 6.0674                                        | 3.7106                          | 2.0000              | 6.6713 | 57.4493           | 39.4493          |
| 2002                             | 2001              | 11.1230                     | -      | 1.8770  | 20.0000                              | 6.0000                    | 6.0694                                        | 3.7106                          | 2.0000              | 7.1961 | 57.9761           | 39.9761          |
| 2001                             | 2000              | 10.9120                     | 0.2270 | 1.8610  | 20.0000                              | 6.0000                    | 6.0760                                        | 3.7128                          | 2.0000              | 7.2129 | 58.0017           | 40.0017          |
| 2000                             | 1999              | 10.2470                     | 0.4030 | 2.3500  | 20.0000                              | 6.0000                    | 6.1022                                        | 3.7128                          | 2.0000              | 7.2129 | 58.0279           | 40.0279          |
| 1999                             | 1998              | 9.8760                      | 0.3020 | 2.8530  | 20.0000                              | 6.0000                    | 6.1022                                        | 3.7239                          | 1.6000              | 7.2319 | 57.6890           | 39.6890          |
| 1998                             | 1997              | 9.8760                      | 0.4230 | 2.9680  | 20.0000                              | 6.0000                    | 6.1022                                        | 2.8739                          | 1.6000              | 7.3819 | 57.2250           | 39.2250          |
| 1997                             | 1996              | 9.8760                      | 0.4750 | 3.1450  | 19.0000                              | 6.0000                    | 6.1022                                        | 2.8739                          | 1.6000              | 7.4119 | 56.4840           | 38.4840          |

(1) Approximately 2/3 of the City's taxable value is contained in Battle Creek School District. Four other school districts overlap into the geographical boundaries of the City. The millage rates for these other school districts are approximately equivalent to Battle Creek School District's.

(2) Passage of Proposal A in 1994 reduced operating millage for Michigan public schools to 18 mills for non-homestead properties and exempted homestead properties. Both homestead and non-homestead properties are subject to the State Education Tax of 6 mills as well as any debt service levy.

Source: City of Battle Creek Finance Department

**CITY OF BATTLE CREEK**  
**Principal Property Tax Payers**  
**Current Fiscal Year and Nine Years Ago**

| Taxpayer                         | 2006                  |      |                                        | 1997                  |      |                                        |
|----------------------------------|-----------------------|------|----------------------------------------|-----------------------|------|----------------------------------------|
|                                  | Taxable Value         | Rank | Percentage of Total City Taxable Value | Taxable Value         | Rank | Percentage of Total City Taxable Value |
| Kellogg Company                  | \$ 148,165,319        | 1    | 9.54%                                  | \$ 298,939,350        | 1    | 24.88%                                 |
| Denso Manufacturing MI Inc.      | 99,328,023            | 2    | 6.39%                                  | 61,034,300            | 2    | 5.08%                                  |
| Kraft Foods Inc.                 | 54,068,016            | 3    | 3.48%                                  | 50,301,675            | 3    | 4.19%                                  |
| Musashi Auto Parts-Michigan Inc. | 32,545,640            | 4    | 2.10%                                  | -                     |      | -                                      |
| II Stanley Co. Inc.              | 23,077,305            | 5    | 1.49%                                  | 12,488,400            | 7    | 1.04%                                  |
| Consumer Energy Co.              | 17,723,359            | 6    | 1.14%                                  | 17,348,300            | 5    | 1.44%                                  |
| Ralcorp Holdings Inc.            | 17,123,381            | 7    | 1.10%                                  | 20,057,000            | 4    | 1.67%                                  |
| TRMI Inc.                        | 14,270,037            | 8    | 0.92%                                  | -                     |      | -                                      |
| Yorozu Automotive NA Inc.        | 13,011,447            | 9    | 0.84%                                  | -                     |      | -                                      |
| Semco Energy Inc.                | 12,393,526            | 10   | 0.80%                                  | 12,464,300            | 8    | 1.04%                                  |
| Technical Auto Parts Inc.        | -                     |      | -                                      | 16,298,800            | 6    | 1.36%                                  |
| American Fabrit Inc.             | -                     |      | -                                      | 12,362,750            | 9    | 1.03%                                  |
| Tokai Rika USA, Inc.             | -                     |      | -                                      | 10,774,400            | 10   | 0.90%                                  |
|                                  | <u>\$ 431,706,053</u> |      | <u>27.79%</u>                          | <u>\$ 512,069,275</u> |      | <u>42.62%</u>                          |

Source: City of Battle Creek Assessor's Office.

# CITY OF BATTLE CREEK

## Property Tax Levies and Collections

### Last Ten Fiscal Years

| Year | Taxes Levied<br>for the<br>Fiscal Year |            | Collected within the<br>Fiscal Year of the Levy |              | Subsequent<br>Years<br>Collections | Total Collections to Date |              |
|------|----------------------------------------|------------|-------------------------------------------------|--------------|------------------------------------|---------------------------|--------------|
|      |                                        |            | Amount                                          | % of<br>Levy |                                    | Amount                    | % of<br>Levy |
| 2006 | \$                                     | 18,922,342 | \$ 18,016,274                                   | 95.21%       | \$ 906,068                         | \$ 18,922,342             | 100.00%      |
| 2005 |                                        | 18,605,060 | 17,672,508                                      | 94.99%       | 932,552                            | 18,605,060                | 100.00%      |
| 2004 |                                        | 17,185,570 | 16,258,858                                      | 94.61%       | 926,712                            | 17,185,570                | 100.00%      |
| 2003 |                                        | 16,268,282 | 15,315,963                                      | 94.15%       | 952,319                            | 16,268,282                | 100.00%      |
| 2002 |                                        | 15,627,580 | 14,556,663                                      | 93.15%       | 1,070,917                          | 15,627,580                | 100.00%      |
| 2001 |                                        | 14,444,440 | 13,472,398                                      | 93.27%       | 972,042                            | 14,444,440                | 100.00%      |
| 2000 |                                        | 13,848,196 | 13,113,769                                      | 94.70%       | 734,427                            | 13,848,196                | 100.00%      |
| 1999 |                                        | 13,053,529 | 12,112,586                                      | 92.79%       | 940,943                            | 13,053,529                | 100.00%      |
| 1998 |                                        | 12,779,511 | 12,166,087                                      | 95.20%       | 613,424                            | 12,779,511                | 100.00%      |
| 1997 |                                        | 12,092,972 | 11,509,315                                      | 95.17%       | 583,657                            | 12,092,972                | 100.00%      |

Source: City of Battle Creek Treasurer's Office

**CITY OF BATTLE CREEK**  
**Ratios of General Bonded Debt Outstanding**  
**Last Ten Years**

| Year | General Bonded Debt Outstanding |                                                            |               | % of<br>Personal<br>Income | % of<br>Actual<br>Taxable<br>Value of<br>Property | Per<br>Capita |
|------|---------------------------------|------------------------------------------------------------|---------------|----------------------------|---------------------------------------------------|---------------|
|      | General<br>Obligation<br>Bonds  | Less:<br>Amounts<br>Restricted<br>to Repaying<br>Principal | Total         |                            |                                                   |               |
| 2006 | \$ 28,924,000                   | \$ 4,298                                                   | \$ 28,928,298 | 0.78%                      | 1.86%                                             | \$ 542.09     |
| 2005 | 26,890,000                      | 4,403                                                      | 26,894,403    | 0.72%                      | 1.77%                                             | 503.98        |
| 2004 | 28,610,000                      | 4,585                                                      | 28,614,585    | 0.77%                      | 1.94%                                             | 536.22        |
| 2003 | 30,290,000                      | 4,452                                                      | 30,294,452    | 0.81%                      | 2.10%                                             | 567.69        |
| 2002 | 29,095,000                      | 4,662                                                      | 29,099,662    | 0.80%                      | 2.10%                                             | 545.31        |
| 2001 | 20,605,000                      | 4,651                                                      | 20,609,651    | 0.59%                      | 1.52%                                             | 386.21        |
| 2000 | 22,015,000                      | 17,236                                                     | 22,032,236    | 0.63%                      | 1.61%                                             | 410.29        |
| 1999 | 23,825,000                      | 17,447                                                     | 23,842,447    | 0.71%                      | 1.77%                                             | 445.69        |
| 1998 | 22,855,000                      | 17,654                                                     | 22,872,654    | 0.69%                      | 1.78%                                             | 427.56        |
| 1997 | 25,170,000                      | 16,140                                                     | 25,186,140    | 0.79%                      | 2.10%                                             | 474.59        |

Source: City of Battle Creek Finance Department

**CITY OF BATTLE CREEK**  
**Computation of Net Direct and Overlapping Debt**  
**As of June 30, 2006**

|                                          | (1)<br>Net Debt<br>Outstanding | Percentage<br>Applicable to<br>City of<br>Battle Creek | Amount<br>Applicable to<br>City of<br>Battle Creek |
|------------------------------------------|--------------------------------|--------------------------------------------------------|----------------------------------------------------|
|                                          | <u>                    </u>    | <u>                    </u>                            | <u>                    </u>                        |
| <b>Direct:</b>                           |                                |                                                        |                                                    |
| City issued bonded debt (2)              | \$ 24,965,000                  | 100.00%                                                | <u>\$ 24,965,000</u>                               |
| <b>Overlapping:</b>                      |                                |                                                        |                                                    |
| Calhoun County                           | 370,000                        | 41.23%                                                 | 152,551                                            |
| Climax-Scotts School District            | 8,250,246                      | 3.82%                                                  | 315,159                                            |
| Lakeview School District                 | 52,625,000                     | 100.00%                                                | 52,625,000                                         |
| Pennfield School District                | 35,686,666                     | 2.87%                                                  | 1,024,207                                          |
| Harper Creek School District             | 54,663,281                     | 0.21%                                                  | 114,793                                            |
| Kellogg Community College                | 13,050,000                     | 41.26%                                                 | <u>5,384,430</u>                                   |
|                                          |                                |                                                        | <u>59,616,141</u>                                  |
| <b>Total direct and overlapping debt</b> |                                |                                                        | <u><u>\$ 84,581,141</u></u>                        |

(1) Excludes self-supporting debt.

(2) Excludes discretely presented component unit.

Source: City of Battle Creek Finance Department and Municipal Advisory Council of Michigan.

**CITY OF BATTLE CREEK**  
**Legal Debt Margin**  
**Last Ten Fiscal Years**

|                                                       |           |                      |
|-------------------------------------------------------|-----------|----------------------|
| State Equalized Value - ad valorem property           | \$        | 1,558,291,294        |
| State Equalized Value - tax abated property:          |           |                      |
| Industrial Facilities                                 |           | 185,551,907          |
| Neighborhood Enterprise Zone                          |           | 877,814              |
|                                                       |           | <hr/>                |
| <b>Total State Equalized Value (SEV)</b>              | <b>\$</b> | <b>1,744,721,015</b> |
|                                                       |           | <hr/>                |
| Legal debt limit (10% of SEV)                         | \$        | 174,472,102          |
| Outstanding debt subject to limitation                | \$        | 110,215,000          |
| Less exempt obligations                               |           | <hr/> (31,415,000)   |
|                                                       | \$        | <hr/> 78,800,000     |
| <b>Legal debt margin</b>                              | <b>\$</b> | <b>95,672,102</b>    |
|                                                       |           | <hr/>                |
| <b>Debt subject to limitation as a percent of SEV</b> |           | <hr/> 4.52%          |
|                                                       |           | <hr/>                |

| <b>Fiscal Year</b> | <b>Debt Limit</b> | <b>Total Net Debt Applicable to Limit</b> | <b>Legal Debt Margin</b> | <b>Total Net Debt Applicable to Limit as a Percentage of Debt Limit</b> |
|--------------------|-------------------|-------------------------------------------|--------------------------|-------------------------------------------------------------------------|
| 2006               | \$ 174,472,102    | \$ 95,672,102                             | 78,800,000               | 54.84% (A)                                                              |
| 2005               | 165,645,555       | 82,015,000                                | 83,630,555               | 49.51% (A)                                                              |
| 2004               | 165,645,555       | 77,135,000                                | 88,510,555               | 46.57% (A)                                                              |
| 2003               | 160,590,810       | 34,205,000                                | 126,385,810              | 21.30%                                                                  |
| 2002               | 160,590,810       | 33,400,000                                | 127,190,810              | 20.80%                                                                  |
| 2001               | 149,483,450       | 25,465,000                                | 124,018,450              | 17.04%                                                                  |
| 2000               | 151,441,040       | 27,840,000                                | 123,601,040              | 18.38%                                                                  |
| 1999               | 143,650,770       | 41,450,000                                | 102,200,770              | 28.85%                                                                  |
| 1998               | 143,650,770       | 33,370,000                                | 110,280,770              | 23.23%                                                                  |
| 1997               | 133,849,380       | 33,095,000                                | 100,754,380              | 24.73%                                                                  |

(A) In 2004, the City refunded Downtown Development Authority bonds in the amount of \$55.265 million with a general obligation backing making the debt subject to the legal debt limit.

Source: City of Battle Creek Finance Department



**CITY OF BATTLE CREEK**  
**Demographic and Economic Statistics**  
**Last Ten Fiscal Years**

| <b>Year</b> |     | <b>Population</b> | <b>(b)<br/>Personal<br/>Income<br/>(thousands<br/>of dollars)</b> | <b>(b)<br/>Per Capita<br/>Personal<br/>Income</b> | <b>Unemployment<br/>Rate</b> |
|-------------|-----|-------------------|-------------------------------------------------------------------|---------------------------------------------------|------------------------------|
| 2006        | (a) | 53,364            | \$ 3,719,430                                                      | \$ 26,778                                         | 7.50%                        |
| 2005        | (a) | 53,364            | 3,719,430                                                         | 26,778                                            | 7.50%                        |
| 2004        | (a) | 53,364            | 3,719,430                                                         | 26,778                                            | 8.00%                        |
| 2003        |     | 53,364            | 3,719,430                                                         | 26,778                                            | 8.20%                        |
| 2002        |     | 53,364            | 3,636,736                                                         | 26,213                                            | 7.10%                        |
| 2001        |     | 53,364            | 3,500,169                                                         | 25,292                                            | 6.10%                        |
| 2000        |     | 53,699            | 3,471,425                                                         | 25,138                                            | 4.90%                        |
| 1999        |     | 53,496            | 3,375,735                                                         | 24,458                                            | 4.40%                        |
| 1998        |     | 53,496            | 3,309,346                                                         | 24,019                                            | 4.30%                        |
| 1997        |     | 53,069            | 3,201,216                                                         | 23,395                                            | 4.80%                        |

(a) Reflects most recent data available.

(b) Battle Creek MSA data.

Sources: U.S. Census Bureau, U.S. Department of Commerce  
Michigan Department of Career Development Employment Service Agency  
Michigan Economic Development Corporation

**CITY OF BATTLE CREEK**  
**Principal Employers**  
**Curent Year and Nine Years Ago**

| <b>Employer</b>                        | <b>2006</b>      |             |                                           | <b>1997</b>      |             |                                           |
|----------------------------------------|------------------|-------------|-------------------------------------------|------------------|-------------|-------------------------------------------|
|                                        | <b>Employees</b> | <b>Rank</b> | <b>% of<br/>Total City<br/>Employment</b> | <b>Employees</b> | <b>Rank</b> | <b>% of<br/>Total City<br/>Employment</b> |
| Denso Manufacturing Michigan, Inc.     | 2,800            | 1           | 10.78%                                    | 1,500            | 3           | 6.23%                                     |
| Federal Center                         | 1,900            | 2           | 7.31%                                     | 1,252            | 5           | 5.20%                                     |
| Kellogg Company                        | 1,800            | 3           | 6.93%                                     | 3,355            | 1           | 13.93%                                    |
| Battle Creek Health System             | 1,554            | 4           | 5.98%                                     | 1,678            | 2           | 6.97%                                     |
| Veterans Administration Medical Center | 1,150            | 5           | 4.43%                                     | 529              | 10          | 2.20%                                     |
| Battle Creek Public Schools            | 1,300            | 6           | 5.00%                                     | 1,183            | 6           | 4.91%                                     |
| Il Stanley Company, Inc                | 780              | 7           | 3.00%                                     | 668              | 8           | 2.77%                                     |
| Kraft Foods, Post Division             | 700              | 8           | 2.69%                                     | 1,292            | 4           | 5.36%                                     |
| Felpausch Food Centers                 | 700              | 9           | 2.69%                                     | -                | -           | -                                         |
| City of Battle Creek                   | 650              | 10          | 2.50%                                     | 775              | 7           | 3.22%                                     |
| Tokai Rika USA, Inc.                   | -                | -           | -                                         | 655              | 9           | 2.72%                                     |
|                                        | <u>13,334</u>    |             | <u>51.32%</u>                             | <u>12,887</u>    |             | <u>53.50%</u>                             |

Source: City of Battle Creek

**CITY OF BATTLE CREEK**  
**Full-Time Equivalent Employees by Function/Program**  
**Last Ten Years**

| <b>Function/Program</b>         | <b>1997</b>       | <b>1998</b>       | <b>1999</b>       | <b>2000</b>       | <b>2001</b>       | <b>2002</b>       | <b>2003</b>       | <b>2004</b>       | <b>2005</b>       | <b>2006</b>       |
|---------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| <b>General Fund and Special</b> |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| <b>Revenue Funds</b>            |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| Administration                  | 23                | 23                | 24                | 28                | 25                | 26                | 25                | 22                | 22                | 22                |
| Community development           | 44                | 22                | 22                | 22                | 19                | 30                | 31                | 29                | 27                | 27                |
| Finance                         | 41                | 41                | 41                | 32                | 31                | 31                | 28                | 27                | 27                | 27                |
| Police department               | 176               | 184               | 192               | 182               | 177               | 152               | 145               | 139               | 132               | 132               |
| Fire department                 | 102               | 102               | 104               | 101               | 92                | 121               | 118               | 118               | 115               | 115               |
| Public Works                    | 80                | 80                | 80                | 77                | 78                | 75                | 72                | 74                | 70                | 70                |
| Parks and recreation            | -                 | 23                | 25                | 24                | 19                | 19                | 17                | 13                | 11                | 11                |
|                                 | <u>466</u>        | <u>475</u>        | <u>488</u>        | <u>466</u>        | <u>441</u>        | <u>454</u>        | <u>436</u>        | <u>422</u>        | <u>404</u>        | <u>404</u>        |
| <b>Enterprise Funds</b>         |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| W.K. Kellogg airport            | 8                 | 8                 | 9                 | 9                 | 9                 | 9                 | 10                | 10                | 10                | 10                |
| Battle Creek transit system     | 38                | 38                | 46                | 45                | 45                | 44                | 43                | 43                | 43                | 43                |
| Sewer and wastewater plant      | 61                | 61                | 59                | 64                | 64                | 71                | 71                | 69                | 67                | 67                |
| Water                           | 67                | 67                | 65                | 58                | 58                | 50                | 47                | 47                | 46                | 46                |
|                                 | <u>174</u>        | <u>174</u>        | <u>179</u>        | <u>176</u>        | <u>176</u>        | <u>174</u>        | <u>171</u>        | <u>169</u>        | <u>166</u>        | <u>166</u>        |
| <b>Internal Service Funds</b>   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| Information systems             | 5                 | 5                 | 9                 | 9                 | 10                | 10                | 10                | 10                | 8                 | 8                 |
| Equipment center                | 20                | 20                | 20                | 20                | 19                | 18                | 18                | 19                | 18                | 18                |
| Self insurance                  | 4                 | 4                 | 4                 | 4                 | 4                 | 4                 | 4                 | 4                 | 4                 | 4                 |
| Reproduction and stores         | 4                 | 4                 | 4                 | 4                 | 4                 | 4                 | 4                 | 4                 | 4                 | 4                 |
|                                 | <u>33</u>         | <u>33</u>         | <u>37</u>         | <u>37</u>         | <u>37</u>         | <u>36</u>         | <u>36</u>         | <u>37</u>         | <u>34</u>         | <u>34</u>         |
| <b>Total</b>                    | <u><u>673</u></u> | <u><u>682</u></u> | <u><u>704</u></u> | <u><u>679</u></u> | <u><u>654</u></u> | <u><u>664</u></u> | <u><u>643</u></u> | <u><u>628</u></u> | <u><u>604</u></u> | <u><u>604</u></u> |

Source: City of Battle Creek Finance Department

**CITY OF BATTLE CREEK**  
**Operating Indicators by Function/Program**  
**Current Year**

| <b>Function/Program</b>           | <b>2006</b>   |
|-----------------------------------|---------------|
| <b>Public Safety</b>              |               |
| Police                            |               |
| Number of incidents               | 55,366        |
| Number of crash reports           | 2,308         |
| Fire                              |               |
| Number of incidents               | 5,538         |
| Number of medical calls           | 3,709         |
| Number of structural fires        | 186           |
| <b>Public Works</b>               |               |
| Major street miles maintained     | 90.58         |
| Local street miles maintained     | 204.32        |
| <b>Culture &amp; Recreation</b>   |               |
| Participation:                    |               |
| Softball                          | 1,671         |
| Soccer                            | 732           |
| Baseball                          | 2,328         |
| Basketball                        | 435           |
| Floor Hockey                      | 1,237         |
| Football                          | 155           |
| Golf                              | 450           |
| Other                             | 915           |
| Aquatic center participation      | 138,000       |
| Rounds of Golf                    | 48,000        |
| Parks maintained                  | 28            |
| Number of Linear Park trail miles | 24            |
| <b>Building Permits</b>           |               |
| Commerical and Industrial         |               |
| Number of Permits                 | 56            |
| Dollar Value                      | \$ 16,336,269 |
| Residential                       |               |
| Number of Permits                 | 321           |
| Dollar Value                      | \$ 24,074,807 |
| Totals                            |               |
| Number of Permits                 | 377           |
| Dollar Value                      | \$ 40,411,076 |

Source: City of Battle Creek Finance Department

**CITY OF BATTLE CREEK**  
**Capital Asset Statistics by Function/Program**  
**Current Year**

| <b>Function/Program</b>       | <b>2006</b> |
|-------------------------------|-------------|
| <b>Police</b>                 |             |
| Vehicle patrol units:         |             |
| Police patrol                 | 46          |
| Detective                     | 15          |
| Other                         | 20          |
| <b>Fire</b>                   |             |
| Fire vehicle units:           |             |
| Trucks                        | 2           |
| Engines                       | 9           |
| Other                         | 12          |
| Fire Stations                 | 5           |
| Administrative Facilities     | 1           |
| <b>Parks and recreation</b>   |             |
| Parks:                        |             |
| Parkland acreage              | 1,200       |
| Natural area acreage          | 200         |
| Picnic areas                  | 15          |
| Buildings:                    |             |
| Log cabins                    | 1           |
| Recreation center             | 1           |
| Fishing structures            | 3           |
| Pavilions                     | 12          |
| Concession                    | 4           |
| Swimming beach areas          | 1           |
| Golf Courses:                 |             |
| 27 hole course                | 1           |
| Trails:                       |             |
| Nature                        | 1           |
| Multiuse                      | 1           |
| Playgrounds                   | 22          |
| Water Areas:                  |             |
| Water parks                   | 1           |
| Spray play feature            | 1           |
| <b>Public works</b>           |             |
| Major street miles maintained | 90.58       |
| Local street miles maintained | 204.32      |
| Vehicles:                     |             |
| Dump trucks                   | 47          |
| Heavy equipment               | 22          |
| Other                         | 240         |

**CITY OF BATTLE CREEK**  
**Schedule of Insurance**  
**As of June 30, 2006**

| Type of Coverage<br>Name of Company                                | Policy Expiration<br>Date | Premium                                                  | Description                                                                                                                                                                                                                                                                                                                                                                                                         |
|--------------------------------------------------------------------|---------------------------|----------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Airport Liability                                                  | 7/1/07                    | \$23,000.00                                              | \$50,000,000 CSL each occ.;<br>ded. \$1,000 per occ./\$10,000 agg.,<br>\$50,000,000 per aircraft/occ Hangar<br>Keepers liability. Terrorism declined.                                                                                                                                                                                                                                                               |
| Auto Liability<br>(Except Buses)                                   | 6/25/07                   | N/A                                                      | Self-insured for 1st \$1 million(PIP SIR is<br>equal to MCCA threshold, \$375,000 this<br>year, increases to \$400,000 10-1-06), must<br>renew certification with Assigned Claims<br>Fund each year, by June 25th.                                                                                                                                                                                                  |
| Auto Physical<br>Damage<br>(except Buses)                          | 6/1/07                    | Included in<br>Property Insurance                        | Stated amount coverage on all but transit<br>vehicles, with over-the-road physical damage<br>deductible of \$50,000 on fire trucks except<br>\$100,000 on two largest fire trucks, and<br>\$25,000 on all other vehicles. Deductibles<br>are on per occurrence basis.                                                                                                                                               |
| Boiler &<br>Machinery                                              | 6/1/07                    | \$18,064.00                                              | \$100,000,000 Property limit, subject to<br>\$50,000 per occ. ded., \$10,000,000 E&O lim                                                                                                                                                                                                                                                                                                                            |
| Crime Coverage                                                     | 7/1/07                    | \$4,742<br>\$1,155 Treasurer's<br>Bond                   | Employee dishonesty \$1,000,000 per loss,<br>with \$10,000 ded.;<br>forgery \$50,000 with \$1,000 ded.,<br>blanket limits, \$500,000 on Treasurer.                                                                                                                                                                                                                                                                  |
| Data Processing<br>Equipment                                       | 6/1/07                    | Included in<br>Property Insurance                        | Blanket coverage for equipment on<br>premises, blanket coverage for data/media<br>and extra expense coverage, subject to<br>ded. on mechanical breakdown and other<br>perils.                                                                                                                                                                                                                                       |
| Emergency Care<br>Services (First<br>Responder Prof.<br>Liability) | 7/1/07                    | \$5,278.13 including<br>surplus lines tax,<br>policy fee | \$1,000,000/claim/general aggregate<br>\$250 deductible each claim.                                                                                                                                                                                                                                                                                                                                                 |
| Employee<br>Benefits Liability                                     | N/A                       | N/A                                                      | See Excess Liability, for losses above<br>\$1,000,000 SIR.                                                                                                                                                                                                                                                                                                                                                          |
| Employment<br>Practices<br>Liability Insurance                     | N/A                       | N/A                                                      | See Excess Liability, for losses above<br>\$1,000,000 SIR.                                                                                                                                                                                                                                                                                                                                                          |
| Excess Liability<br>(first layer)                                  | 10/1/07                   | \$217,385.00<br>(includes broker's fee)                  | \$5,000,000 each occ. and/or wrongful act<br>\$5,000,000 aggregate limit for Personal Inj,<br>Products/Completed Operations and Public<br>Officials E&O combined. Subject to<br>\$1,000,000 per occ/wrongful act, and<br>\$2,500,000 Annual Aggregate SIR.<br>Terrorism rejected. Does not apply to<br>Airport Liability. Excess of all primary limits,<br>subject to SIR on any self-insured primary<br>exposures. |

**CITY OF BATTLE CREEK**  
**Schedule of Insurance**  
**As of June 30, 2006**

| <b>Type of Coverage<br/>Name of Company</b> | <b>Policy Expiration<br/>Date</b> | <b>Premium</b>                                                            | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                                                              |
|---------------------------------------------|-----------------------------------|---------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Excess Liability<br>(2nd layer)             | 10/1/07                           | \$51,110.00<br>(including surplus<br>lines taxes & fees,<br>broker's fee) | \$5,000,000 excess of Clarendon's<br>\$5,000,000 layer. Does not apply to Transit<br>Operations.                                                                                                                                                                                                                                                                                                                |
| Garage Liab.<br>(Ambulance Repairs)         |                                   | no longer applicable                                                      |                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Inland Marine                               | 6/1/07                            | Included in Property<br>Insurance                                         | Coverage on fine arts, contractors<br>equipment(ACV), communications<br>equipment, including dispatch<br>equipment and towers.                                                                                                                                                                                                                                                                                  |
| Liquor Liability<br>Binder Park Golf        | 3/8/07                            | \$2,334.00<br>(including surplus<br>lines tax, fees)                      | \$1,000,000 each common cause/annual<br>aggregate limit. No deductible.<br>Note: License in name of Cereal City<br>Development Corporation.                                                                                                                                                                                                                                                                     |
| Police Professional<br>Liability            | N/A                               | N/A                                                                       | See Excess Liability, for losses above<br>\$1 million SIR.                                                                                                                                                                                                                                                                                                                                                      |
| Property Insurance                          | 6/1/07                            | \$169,390.00                                                              | All Risk coverage on real property, personal<br>property, business interruption, extra<br>expense, earthquake & flood, and vehicle<br>physical damage, with \$200,000,000 per<br>occ loss limit on real property, \$50,000,000<br>limit on flood and earthquake, with other<br>special sublimits. \$5,000,000 E&O limit.<br>\$200,000,000 terrorism coverage included.<br>\$40,000 basic All Perils deductible. |
| Pollution Liability                         | N/A                               | N/A                                                                       | Note: Finance department files for self-<br>insured authority with State, for UST liability.                                                                                                                                                                                                                                                                                                                    |
| Public Officials                            | N/A                               | N/A                                                                       | See Excess Liability , for losses above<br>\$1 million SIR.                                                                                                                                                                                                                                                                                                                                                     |
| Transit<br>(Physical Damage)                | 6/1/07                            | Included in Property<br>Insurance                                         | Stated amount coverage on all transit<br>vehicles, with over-the-road physical damage<br>deductibles of \$10,000 on handi-vans,<br>\$50,000 on large busses. Deductible on<br>per-occurrence basis.                                                                                                                                                                                                             |
| Transit<br>(Liability)                      | N/A                               | Primary Policy non-<br>renewed 4-1-05                                     | Note: See 1st Layer of excess coverage<br>(\$5 million) for losses excess of \$1 million<br>(PIP excess of \$375,000) SIR. 2nd Layer of<br>excess does not apply to Transit.                                                                                                                                                                                                                                    |
| Warehouse<br>(Liability)                    | N/A                               | No longer applicable<br>BCTIFA owns                                       | None                                                                                                                                                                                                                                                                                                                                                                                                            |

**CITY OF BATTLE CREEK**  
**Schedule of Insurance**  
**As of June 30, 2006**

| <b>Type of Coverage<br/>Name of Company</b> | <b>Policy Expiration<br/>Date</b> | <b>Premium</b>                           | <b>Description</b>                                                                                                                                                                                            |
|---------------------------------------------|-----------------------------------|------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Worker's Comp.<br>(Primary)                 | 6/30/07                           | N/A                                      | Note: If requested by W.C. bureau, must update self-insured certification by July 1st. Also, must notify if any changes in excess coverage, or TPA.                                                           |
| Worker's Comp.<br>(Excess)                  | 7/1/07                            | Estimated/Minimum<br>Premium \$25,895.00 | Statutory limit, \$1,000,000<br>Employers Liability, Specific Excess<br>subject to \$650,000 S.I.R. for Police/Fire,<br>all other emp \$600,000 per accident or<br>disease. No agg. limit on S.I.R. per year. |
| Emergency Dispatch<br>Liability             | N/A                               | N/A                                      | See Excess Liability, for losses above<br>\$1 million.                                                                                                                                                        |
| Liquor Liability<br>Except Binder Park      | N/A                               | N/A                                      | None - See separate policy for Binder Park                                                                                                                                                                    |



**CITY OF BATTLE CREEK, MICHIGAN**  
**Water and Wastewater System Revenue Bond Coverage**  
**Last Ten Fiscal Years**

| Fiscal<br>Year Ended<br>June 30, | (1)<br>Gross<br>Revenue | (2)<br>Operating<br>Expenses | Net Revenue<br>Available for<br>Debt Service | (3)<br>Total<br>Debt Service<br>Requirement | Coverage |
|----------------------------------|-------------------------|------------------------------|----------------------------------------------|---------------------------------------------|----------|
| 2006                             | \$ 17,438,691           | \$ 14,533,605                | \$ 2,905,086                                 | \$ 2,139,594                                | 1.36     |
| 2005                             | 18,128,410              | 14,075,713                   | 4,052,697                                    | 2,039,225                                   | 1.99     |
| 2004                             | 16,753,042              | 13,741,506                   | 3,011,536                                    | 1,575,436                                   | 1.91     |
| 2003                             | 18,914,844              | 13,409,060                   | 5,505,784                                    | 1,447,312                                   | 3.80     |
| 2002 (5)                         | 18,059,421              | 12,834,705                   | 5,224,716                                    | 1,452,305                                   | 3.60     |
| 2001                             | 6,285,322               | 4,639,956                    | 1,645,366                                    | 1,428,910                                   | 1.15     |
| 2000                             | 6,385,001               | 5,203,838                    | 1,181,163                                    | 1,437,565                                   | 0.82     |
| 1999                             | 6,234,314               | 5,083,581                    | 1,150,733                                    | 1,299,578                                   | 0.89     |
| 1998                             | 6,424,672               | 4,321,163                    | 2,103,509                                    | 1,278,816                                   | 1.64     |
| 1997                             | 6,088,858               | 4,117,807                    | 1,971,051                                    | 830,258                                     | 2.37     |

(1) Includes operating revenue, investment income and transfers from tax increment financing authorities. Such transfers will continue through the year ended June 30, 2011.

(2) Excludes depreciation expense.

(3) Includes revenue bonds only.

(4) Represents the point in time at which payments began on the 1993 Revenue Bonds and the noncallable portion of the 1990 Revenue Bonds.

(5) Effective 7-1-01, the water and wastewater systems were legally combined; therefore, amounts prior to 2001-02 are for the water fund only.

**CITY OF BATTLE CREEK, MICHIGAN**  
**Number of Water System Customers by User Class**  
**Last Ten Fiscal Years**

| Type of User         | 2006   | 2005   | 2004   | 2003   | 2002   | 2001   | 2000   | 1999   | 1998   | 1997   |
|----------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>In-City</b>       |        |        |        |        |        |        |        |        |        |        |
| Residential          | 15,762 | 15,144 | 15,123 | 15,173 | 15,164 | 15,150 | 15,132 | 15,004 | 15,001 | 14,901 |
| Commercial (1)       | 1,807  | 1,753  | 1,792  | 1,770  | 1,759  | 1,747  | 1,749  | 1,762  | 1,777  | 1,755  |
| Industrial           | 225    | 163    | 161    | 165    | 166    | 157    | 159    | 159    | 155    | 156    |
|                      | 17,794 | 17,060 | 17,076 | 17,108 | 17,089 | 17,054 | 17,040 | 16,925 | 16,933 | 16,812 |
| <b>Outside City</b>  |        |        |        |        |        |        |        |        |        |        |
| Emmett Township      | 766    | 765    | 763    | 761    | 746    | 744    | 705    | 701    | 708    | 706    |
| Bedford Township (2) | 434    | 512    | 434    | 425    | 432    | 435    | 437    | 435    | 37     | 33     |
| Springfield City     | Bulk   | Bulk   | Bulk   | Bulk   | Bulk   | Bulk   | Bulk   | Bulk   | Bulk   | Bulk   |
| Pennfield Township   | Bulk   | Bulk   | Bulk   | Bulk   | Bulk   | Bulk   | Bulk   | Bulk   | Bulk   | Bulk   |
|                      | 1,200  | 1,277  | 1,197  | 1,186  | 1,178  | 1,179  | 1,142  | 1,136  | 745    | 739    |
| <b>Totals</b>        | 18,994 | 18,337 | 18,273 | 18,294 | 18,267 | 18,233 | 18,182 | 18,061 | 17,678 | 17,551 |

(1) This class includes commercial and governmental users.

(2) Increase in 1999 applicable to Orchard Park addition.

**CITY OF BATTLE CREEK, MICHIGAN**  
**Water System Customers by User Class as a Percent of Total**  
**Last Ten Fiscal Years**

| Type of User        | 2006    | 2005    | 2004    | 2003    | 2002    | 2001    | 2000    | 1999    | 1998    | 1997    |
|---------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| <b>In-City</b>      |         |         |         |         |         |         |         |         |         |         |
| Residential         | 82.98%  | 82.59%  | 82.76%  | 82.94%  | 83.01%  | 83.09%  | 83.23%  | 83.07%  | 84.86%  | 84.90%  |
| Commerical          | 9.85%   | 9.56%   | 9.81%   | 9.68%   | 9.63%   | 9.58%   | 9.62%   | 9.76%   | 10.05%  | 10.00%  |
| Industrial          | 1.23%   | 0.89%   | 0.88%   | 0.90%   | 0.91%   | 0.86%   | 0.87%   | 0.88%   | 0.88%   | 0.89%   |
|                     | 94.07%  | 93.04%  | 93.45%  | 93.52%  | 93.55%  | 93.53%  | 93.72%  | 93.71%  | 95.79%  | 95.79%  |
| <b>Outside City</b> |         |         |         |         |         |         |         |         |         |         |
| Emmett Township     | 4.18%   | 4.17%   | 4.18%   | 4.16%   | 4.08%   | 4.08%   | 3.88%   | 3.88%   | 4.00%   | 4.02%   |
| Bedford Township    | 2.37%   | 2.79%   | 2.38%   | 2.32%   | 2.36%   | 2.39%   | 2.40%   | 2.41%   | 0.21%   | 0.19%   |
| Springfield City    | n/a     | n/a     | n/a     | n/a     | n/a     | n/a     | n/a     | n/a     | n/a     | n/a     |
| Pennfield Township  | n/a     | n/a     | n/a     | n/a     | n/a     | n/a     | n/a     | n/a     | n/a     | n/a     |
|                     | 6.54%   | 6.96%   | 6.55%   | 6.48%   | 6.45%   | 6.47%   | 6.28%   | 6.29%   | 4.21%   | 4.21%   |
| <b>Totals</b>       | 100.61% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |

**CITY OF BATTLE CREEK, MICHIGAN**  
**Water System Revenues by User Class**  
**Last Ten Fiscal Years**

| Type of User         | 2006               | 2005               | 2004               | 2003               | 2002               | 2001               | 2000               | 1999               | 1998               | 1997               |
|----------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| <b>In-City</b>       |                    |                    |                    |                    |                    |                    |                    |                    |                    |                    |
| Residential          | \$2,930,112        | \$2,988,206        | \$2,778,890        | \$2,756,443        | \$2,533,362        | \$2,231,146        | \$2,094,201        | \$2,016,205        | \$2,024,363        | \$1,982,567        |
| Commercial (1)       | 2,384,246          | 2,107,130          | 2,029,994          | 1,900,080          | 1,843,640          | 1,624,460          | 1,601,871          | 1,440,049          | 1,574,481          | 1,440,832          |
| Industrial           | 1,458,381          | 1,534,992          | 1,569,500          | 1,620,398          | 1,427,598          | 1,312,635          | 1,401,659          | 1,526,993          | 1,694,215          | 1,482,808          |
|                      | 6,772,739          | 6,630,328          | 6,378,384          | 6,276,921          | 5,804,600          | 5,168,241          | 5,097,731          | 4,983,247          | 5,293,059          | 4,906,207          |
| <b>Outside City</b>  |                    |                    |                    |                    |                    |                    |                    |                    |                    |                    |
| Emmett Township (2)  | -                  | -                  | -                  | -                  | -                  | -                  | 90,242             | 246,737            | 251,065            | 203,017            |
| Bedford Township (2) | -                  | -                  | -                  | -                  | -                  | -                  | 37,527             | 46,608             | 6,564              | 5,708              |
| Springfield City     | 267,421            | 257,382            | 230,142            | 309,120            | 255,990            | 220,169            | 280,166            | 242,485            | 201,044            | 240,309            |
| Pennfield Township   | 24,931             | 25,819             | 25,272             | 25,724             | 22,819             | 22,461             | 25,736             | 34,487             | 53,477             | 56,395             |
|                      | 292,352            | 283,201            | 255,414            | 334,844            | 278,809            | 242,630            | 433,671            | 570,317            | 512,150            | 505,429            |
| <b>Totals</b>        | <b>\$7,065,091</b> | <b>\$6,913,529</b> | <b>\$6,633,798</b> | <b>\$6,611,765</b> | <b>\$6,083,409</b> | <b>\$5,410,871</b> | <b>\$5,531,402</b> | <b>\$5,553,564</b> | <b>\$5,805,209</b> | <b>\$5,411,636</b> |

(1) This class includes commercial and governmental users.

(2) Effective 11/1/99, Emmett and Bedford Townships residential revenues are included above in In-City Residential.

**CITY OF BATTLE CREEK, MICHIGAN**  
**Water System Revenues by User Class as a Percent of Total Revenue**  
**Last Ten Fiscal Years**

| Type of User         | 2006    | 2005    | 2004    | 2003    | 2002    | 2001    | 2000    | 1999    | 1998    | 1997    |
|----------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| <b>In-City</b>       |         |         |         |         |         |         |         |         |         |         |
| Residential          | 42.38%  | 43.22%  | 41.89%  | 41.69%  | 41.64%  | 41.23%  | 37.86%  | 36.30%  | 34.87%  | 36.64%  |
| Commercial (1)       | 34.49%  | 30.48%  | 30.60%  | 28.74%  | 30.31%  | 30.02%  | 28.96%  | 25.93%  | 27.12%  | 26.62%  |
| Industrial           | 21.09%  | 22.20%  | 23.66%  | 24.51%  | 23.47%  | 24.26%  | 25.34%  | 27.50%  | 29.18%  | 27.40%  |
|                      | 97.96%  | 95.90%  | 96.15%  | 94.94%  | 95.42%  | 95.52%  | 92.16%  | 89.73%  | 91.18%  | 90.66%  |
| <b>Outside City</b>  |         |         |         |         |         |         |         |         |         |         |
| Emmett Township (2)  | 0.00%   | 0.00%   | 0.00%   | 0.00%   | 0.00%   | 0.00%   | 1.63%   | 4.44%   | 4.32%   | 3.75%   |
| Bedford Township (2) | 0.00%   | 0.00%   | 0.00%   | 0.00%   | 0.00%   | 0.00%   | 0.68%   | 0.84%   | 0.11%   | 0.11%   |
| Springfield City     | 3.87%   | 3.72%   | 3.47%   | 4.68%   | 4.21%   | 4.07%   | 5.07%   | 4.37%   | 3.46%   | 4.44%   |
| Pennfield Township   | 0.36%   | 0.37%   | 0.38%   | 0.39%   | 0.38%   | 0.42%   | 0.47%   | 0.62%   | 0.92%   | 1.04%   |
|                      | 4.23%   | 4.10%   | 3.85%   | 5.06%   | 4.58%   | 4.48%   | 7.84%   | 10.27%  | 8.82%   | 9.34%   |
| <b>Totals</b>        | 102.19% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |

(1) This class includes commercial and governmental users.

(2) Effective 11/1/99, Emmett and Bedford Townships residential revenues are included above in In-City Residential.

**CITY OF BATTLE CREEK, MICHIGAN**  
**Water System Sales Volume by User Class (Cubic Feet)**  
**Last Ten Fiscal Years**

| Type of User        | 2006        | 2005        | 2004        | 2003        | 2002        | 2001        | 2000        | 1999        | 1998        | 1997        |
|---------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>In-City</b>      |             |             |             |             |             |             |             |             |             |             |
| Residential         | 122,288,785 | 135,354,475 | 137,407,639 | 147,477,690 | 143,389,790 | 145,687,089 | 150,082,516 | 151,173,776 | 144,442,234 | 143,915,251 |
| Commercial (1)      | 113,556,377 | 108,753,474 | 112,195,110 | 121,130,023 | 114,554,365 | 115,717,957 | 125,688,340 | 130,291,866 | 123,655,135 | 124,884,532 |
| Industrial          | 127,409,289 | 121,679,350 | 130,801,446 | 145,025,970 | 133,214,879 | 143,979,786 | 190,579,000 | 203,600,381 | 215,465,319 | 208,973,000 |
|                     | 363,254,451 | 365,787,299 | 380,404,195 | 413,633,683 | 391,159,034 | 405,384,832 | 466,349,856 | 485,066,023 | 483,562,688 | 477,772,783 |
| <b>Outside City</b> |             |             |             |             |             |             |             |             |             |             |
| Ennett Township     | 15,288,468  | 4,195,427   | 15,309,213  | 15,601,835  | 15,683,365  | 13,664,074  | 13,313,430  | 13,132,364  | 13,402,305  | 13,583,653  |
| Bedford Township    | 3,602,107   | 4,560,943   | 3,778,467   | 3,640,246   | 3,868,998   | 3,808,655   | 3,562,447   | 3,522,107   | 306,639     | 267,159     |
| Springfield City    | 20,754,525  | 21,277,255  | 21,227,255  | 21,616,262  | 20,611,891  | 21,051,942  | 30,787,488  | 26,646,743  | 22,092,761  | 26,440,601  |
| Pennfield Township  | 2,937,600   | 3,165,700   | 3,099,600   | 3,418,800   | 2,882,400   | 2,911,900   | 3,431,500   | 4,598,300   | 7,130,229   | 7,519,281   |
|                     | 42,582,700  | 33,199,325  | 43,414,535  | 44,277,143  | 43,046,654  | 41,436,571  | 51,094,865  | 47,899,514  | 42,931,934  | 47,810,694  |
| <b>Totals</b>       | 405,837,151 | 398,986,624 | 423,818,730 | 457,910,826 | 434,205,688 | 446,821,403 | 517,444,721 | 532,965,537 | 526,494,622 | 525,583,477 |

(1) This class includes commercial and governmental users.

**CITY OF BATTLE CREEK, MICHIGAN**  
**Water System Sales Volume by User Class as a Percent of Total Sales (Cubic Feet)**  
**Last Ten Fiscal Years**

| Type of User        | 2006    | 2005    | 2004    | 2003    | 2002    | 2001    | 2000    | 1999    | 1998    | 1997    |
|---------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| <b>In-City</b>      |         |         |         |         |         |         |         |         |         |         |
| Residential         | 30.65%  | 33.92%  | 32.42%  | 32.21%  | 33.02%  | 32.61%  | 29.00%  | 28.36%  | 27.43%  | 27.38%  |
| Commercial          | 28.46%  | 27.26%  | 26.47%  | 26.45%  | 26.38%  | 25.90%  | 24.29%  | 24.45%  | 23.49%  | 23.76%  |
| Industrial          | 31.93%  | 30.50%  | 30.86%  | 31.67%  | 30.68%  | 32.22%  | 36.83%  | 38.20%  | 40.92%  | 39.76%  |
|                     | 91.04%  | 91.68%  | 89.76%  | 90.33%  | 90.09%  | 90.73%  | 90.13%  | 91.01%  | 91.85%  | 90.90%  |
| <b>Outside City</b> |         |         |         |         |         |         |         |         |         |         |
| Emmett Township     | 3.83%   | 1.05%   | 3.61%   | 3.41%   | 3.61%   | 3.06%   | 2.57%   | 2.46%   | 2.55%   | 2.58%   |
| Bedford Township    | 0.90%   | 1.14%   | 0.89%   | 0.79%   | 0.89%   | 0.85%   | 0.69%   | 0.66%   | 0.06%   | 0.05%   |
| Springfield City    | 5.20%   | 5.33%   | 5.01%   | 4.72%   | 4.75%   | 4.71%   | 5.95%   | 5.00%   | 4.20%   | 5.03%   |
| Pennfield Township  | 0.74%   | 0.79%   | 0.73%   | 0.75%   | 0.66%   | 0.65%   | 0.66%   | 0.86%   | 1.35%   | 1.43%   |
|                     | 10.67%  | 8.32%   | 10.24%  | 9.67%   | 9.91%   | 9.27%   | 9.87%   | 8.99%   | 8.15%   | 9.10%   |
| <b>Totals</b>       | 101.72% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |

**CITY OF BATTLE CREEK, MICHIGAN**  
**Water Pumped and Sold (Cubic Feet)**  
**Last Ten Fiscal Years**

| <u>Fiscal Year<br/>Ended<br/>June 30</u> | <u>Water<br/>Pumped</u> | <u>Percent<br/>Increase<br/>(Decrease)</u> | <u>Water<br/>Sold</u> | <u>Percent<br/>Increase<br/>(Decrease)</u> | <u>Water Sold<br/>as a % of<br/>Water Pumped</u> |
|------------------------------------------|-------------------------|--------------------------------------------|-----------------------|--------------------------------------------|--------------------------------------------------|
| 2006                                     | 506,143,048             | 0.11%                                      | 390,871,405           | -16.10%                                    | 77.23%                                           |
| 2005                                     | 505,578,877             | -1.92%                                     | 465,858,819           | 9.92%                                      | 92.14%                                           |
| 2004                                     | 515,498,663             | -5.79%                                     | 423,818,730           | -7.45%                                     | 82.22%                                           |
| 2003                                     | 547,204,560             | 2.25%                                      | 457,910,826           | 5.46%                                      | 83.68%                                           |
| 2002                                     | 535,185,830             | -1.60%                                     | 434,205,688           | -2.82%                                     | 81.13%                                           |
| 2001                                     | 543,913,102             | -12.02%                                    | 446,821,403           | -16.16%                                    | 82.15%                                           |
| 2000                                     | 593,451,872             | -8.06%                                     | 517,444,721           | -1.72%                                     | 87.19%                                           |
| 1999                                     | 618,247,326             | 2.17%                                      | 532,965,537           | 1.40%                                      | 86.21%                                           |
| 1998                                     | 645,486,631             | 6.67%                                      | 526,494,622           | 0.17%                                      | 81.57%                                           |
| 1997                                     | 605,137,701             | 4.82%                                      | 525,583,477           | 3.29%                                      | 86.85%                                           |



**CITY OF BATTLE CREEK, MICHIGAN**  
**Water Revenue and Usage - Major Customers**  
**Fiscal Year Ended June 30, 2006**

| Company                            | Product or Service | Consumption<br>(Cu. Ft.) | % of<br>Total | Revenue             | % of<br>Total |
|------------------------------------|--------------------|--------------------------|---------------|---------------------|---------------|
| Kellogg (Plant)                    | Breakfast foods    | 46,188,900               | 10.90%        | \$ 511,193          | 8.40%         |
| Ralcorp Holdings, Inc              | Breakfast foods    | 32,771,092               | 7.73%         | 141,141             | 2.32%         |
| Kraft Foods, Post Division         | Breakfast foods    | 28,725,399               | 6.78%         | 355,122             | 5.84%         |
| Denso Manufacturing Michigan, Inc. | Auto Parts         | 11,694,099               | 2.76%         | 116,816             | 1.92%         |
| Battle Creek Health System         | Medical services   | 5,194,899                | 1.23%         | 64,960              | 1.07%         |
| City of Battle Creek - WWTP        | Government         | 5,155,800                | 1.22%         | 64,960              | 1.07%         |
| Kellogg (Research)                 | Breakfast Cereal   | 3,730,999                | 0.88%         | 51,640              | 0.85%         |
| Cello-Foil Products Inc.           | Food Packaging     | 3,480,300                | 0.82%         | 44,886              | 0.74%         |
| Michigan Carton & Paperboard       | Paper mill         | 2,990,000                | 0.71%         | 45,988              | 0.76%         |
| Calhoun County Justice Center      | Jail/Courts        | 2,435,300                | 0.57%         | 33,371              | 0.55%         |
| US Gov't Federal Center            | Government         | 2,230,144                | 0.53%         | 36,192              | 0.59%         |
| VA Laundry                         | Laundry            | 2,062,500                | 0.49%         | 27,687              | 0.46%         |
| Rolling Hills Mobile Home Park     | Mobile Homes       | 1,959,000                | 0.46%         | 27,736              | 0.46%         |
| Rock-Tenn/Waldorf Corp             | Paperboard         | 1,891,100                | 0.45%         | 44,723              | 0.74%         |
| Community Hospital                 | Hospital           | 1,791,537                | 0.42%         | 13,644              | 0.22%         |
| McCamly Plaza Hotel                | Hotel              | 1,397,400                | 0.33%         | 22,648              | 0.37%         |
| Kellogg (Headquarters)             | Breakfast Cereal   | 1,385,600                | 0.33%         | 20,320              | 0.33%         |
| II Stanley                         | Automotive Parts   | 1,078,000                | 0.25%         | 18,146              | 0.30%         |
| Gallaher Laundry                   | Laundry            | 1,059,200                | 0.25%         | 15,280              | 0.25%         |
| Johnson Controls                   | Automotive parts   | 440,500                  | 0.10%         | 11,161              | 0.18%         |
| <b>Totals</b>                      |                    | <b>157,661,769</b>       | <b>38.85%</b> | <b>\$ 1,667,614</b> | <b>23.60%</b> |

**CITY OF BATTLE CREEK, MICHIGAN**  
**Current Water Rates (Effective July 1, 2001)**

**Monthly Water Commodity Charge (1)**  
**(Fiscal Year Ending June 30)**

|                                 | 2002    | 2003    | 2004    | 2005    | 2006    |
|---------------------------------|---------|---------|---------|---------|---------|
| <u>Inside City</u>              |         |         |         |         |         |
| 0 to 4,410,000                  | \$ 0.96 | \$ 1.01 | \$ 1.06 | \$ 1.11 | \$ 1.17 |
| 4,410,001 to 11,000,000         | 0.47    | 0.49    | 0.51    | 0.54    | 0.57    |
| Over 11,000,000                 | 0.70    | 0.74    | 0.78    | 0.82    | 0.86    |
| <u>Outside City (bulk rate)</u> |         |         |         |         |         |
| Pennfield Township              | 0.80    | 0.81    | 0.82    | 0.83    | 0.84    |
| Springfield City (4)            | 1.37    | 1.37    | 1.37    | 1.37    | 1.37    |

**Monthly Readiness-to-Serve Charge (2)**  
**(Fiscal Year Ending June 30)**

|                    | 2002    | 2003    | 2004     | 2005     | 2006     |
|--------------------|---------|---------|----------|----------|----------|
| <u>Inside City</u> |         |         |          |          |          |
| 3/4" or less       | \$ 5.52 | \$ 5.80 | \$ 6.09  | \$ 6.39  | \$ 6.71  |
| 1"                 | 9.38    | 9.86    | 10.35    | 10.86    | 11.41    |
| 1.5"               | 19.32   | 20.30   | 21.32    | 22.37    | 27.49    |
| 2"                 | 36.98   | 38.86   | 40.80    | 42.81    | 44.96    |
| 3"                 | 82.80   | 87.00   | 91.35    | 95.85    | 100.65   |
| 4"                 | 149.04  | 156.60  | 164.43   | 172.53   | 181.17   |
| 6"                 | 331.20  | 348.00  | 365.40   | 383.40   | 402.60   |
| 8"                 | 552.00  | 580.00  | 609.00   | 639.00   | 671.00   |
| 10"                | 910.80  | 957.00  | 1,004.85 | 1,054.35 | 1,107.15 |
| 12" (5)            |         |         |          |          |          |

**Monthly Fire Sprinkler Charges (3)**  
**(Fiscal Year Ending June 30)**

|                    | 2002    | 2003    | 2004    | 2005    | 2006    |
|--------------------|---------|---------|---------|---------|---------|
| <u>Inside City</u> |         |         |         |         |         |
| 2"                 | \$ 4.13 | \$ 4.33 | \$ 4.55 | \$ 4.78 | \$ 5.01 |
| 3"                 | 6.75    | 7.09    | 7.44    | 7.81    | 8.20    |
| 4"                 | 9.75    | 10.24   | 10.75   | 11.29   | 11.85   |
| 6"                 | 18.00   | 18.90   | 19.85   | 20.84   | 21.88   |
| 8"                 | 33.00   | 34.65   | 36.38   | 38.20   | 40.11   |
| 10"                | 49.50   | 51.98   | 54.57   | 57.30   | 60.17   |

- (1) Rate per 100 cubic feet.  
(2) Rate based on meter size; Outside City rates are set by contract.  
(3) Rate based on connection size; Outside City rates are set by contract.  
(4) Currently in negotiations.  
(5) To be calculated at time of permit.

**CITY OF BATTLE CREEK, MICHIGAN**  
**Number of Wastewater System Customers by User Class**  
**Last Ten Fiscal Years**

| Type of User         | 2006   | 2005   | 2004   | 2003   | 2002   | 2001   | 2000   | 1999   | 1998   | 1997   |
|----------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>In-City</b>       |        |        |        |        |        |        |        |        |        |        |
| Residential          | 16,761 | 16,854 | 16,288 | 16,304 | 16,382 | 16,383 | 16,388 | 16,389 | 16,408 | 14,901 |
| Commercial (1)       | 1,798  | 1,808  | 1,744  | 1,753  | 1,760  | 1,740  | 1,748  | 1,758  | 1,766  | 1,755  |
| Industrial           | 151    | 152    | 145    | 142    | 141    | 144    | 145    | 144    | 143    | 156    |
|                      | 18,710 | 18,814 | 18,177 | 18,199 | 18,283 | 18,267 | 18,281 | 18,291 | 18,317 | 16,812 |
| <b>Outside City</b>  |        |        |        |        |        |        |        |        |        |        |
| Emmett Township      | 1,825  | 1,835  | 1,779  | 1,781  | 1,740  | 1,708  | 1,696  | 1,700  | 1,697  | 706    |
| Bedford Township (2) | 579    | 582    | 565    | 559    | 564    | 564    | 570    | 577    | 23     | 33     |
| Springfield City     | Bulk   | Bulk   | Bulk   | Bulk   | Bulk   | Bulk   | Bulk   | Bulk   | Bulk   | Bulk   |
| Pennfield Township   | Bulk   | Bulk   | Bulk   | Bulk   | Bulk   | Bulk   | Bulk   | Bulk   | Bulk   | Bulk   |
|                      | 2,404  | 2,417  | 2,344  | 2,340  | 2,304  | 2,272  | 2,266  | 2,277  | 1,720  | 739    |
| <b>Totals</b>        | 21,114 | 21,231 | 20,521 | 20,539 | 20,587 | 20,539 | 20,547 | 20,568 | 20,037 | 17,551 |

(1) This class includes commercial and governmental users.

(2) Increase in 1999 applicable to Orchard Park addition.

**CITY OF BATTLE CREEK, MICHIGAN**  
**Wastewater System Customers by User Class as a Percent of Total**  
**Last Ten Fiscal Years Ended June 30, 2006**

| Type of User        | 2006    | 2005    | 2004    | 2003    | 2002    | 2001    | 2000    | 1999    | 1998    | 1997    |
|---------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| <b>In-City</b>      |         |         |         |         |         |         |         |         |         |         |
| Residential         | 79.38%  | 79.38%  | 79.37%  | 79.38%  | 79.57%  | 79.77%  | 79.76%  | 79.68%  | 81.89%  | 84.90%  |
| Commercial          | 8.52%   | 8.52%   | 8.50%   | 8.53%   | 8.55%   | 8.47%   | 8.51%   | 8.55%   | 8.81%   | 10.00%  |
| Industrial          | 0.72%   | 0.72%   | 0.71%   | 0.69%   | 0.68%   | 0.70%   | 0.71%   | 0.70%   | 0.71%   | 0.89%   |
|                     | 88.61%  | 88.62%  | 88.58%  | 88.61%  | 88.81%  | 88.94%  | 88.97%  | 88.93%  | 91.42%  | 95.79%  |
| <b>Outside City</b> |         |         |         |         |         |         |         |         |         |         |
| Emmett Township     | 8.69%   | 8.64%   | 8.67%   | 8.67%   | 8.45%   | 8.32%   | 8.25%   | 8.27%   | 8.47%   | 4.02%   |
| Bedford Township    | 2.76%   | 2.74%   | 2.75%   | 2.72%   | 2.74%   | 2.75%   | 2.77%   | 2.81%   | 0.11%   | 0.19%   |
| Springfield City    | n/a     | n/a     | n/a     | n/a     | n/a     | n/a     | n/a     | n/a     | n/a     | n/a     |
| Pennfield Township  | n/a     | n/a     | n/a     | n/a     | n/a     | n/a     | n/a     | n/a     | n/a     | n/a     |
|                     | 11.39%  | 11.38%  | 11.42%  | 11.39%  | 11.19%  | 11.06%  | 11.03%  | 11.07%  | 8.58%   | 4.21%   |
| <b>Totals</b>       | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |

**CITY OF BATTLE CREEK, MICHIGAN**  
**Wastewater System Revenues by User Class**  
**Last Ten Fiscal Years**

| Type of User         | 2006        | 2005         | 2004        | 2003         | 2002         | 2001         | 2000         | 1999         | 1998         | 1997        |
|----------------------|-------------|--------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|
| <b>In-City</b>       |             |              |             |              |              |              |              |              |              |             |
| Residential          | \$2,761,007 | \$2,811,084  | \$2,772,893 | \$2,709,184  | \$2,660,562  | \$2,736,605  | \$2,822,317  | \$2,944,037  | \$2,947,902  | \$1,982,567 |
| Commercial (1)       | 1,783,669   | 1,941,867    | 2,011,039   | 2,091,895    | 4,004,457    | 2,203,387    | 4,637,862    | 4,756,430    | 4,682,374    | 1,440,832   |
| Industrial           | 3,446,719   | 3,731,951    | 3,609,226   | 3,814,617    | 2,092,277    | 4,089,700    | 2,166,179    | 2,210,909    | 2,174,556    | 1,482,808   |
|                      | 7,991,395   | 8,484,902    | 8,393,158   | 8,615,696    | 8,757,296    | 9,029,692    | 9,626,358    | 9,911,376    | 9,804,832    | 4,906,207   |
| <b>Outside City</b>  |             |              |             |              |              |              |              |              |              |             |
| Emmett Township (2)  | 587,939     | 623,282      | 574,372     | 565,512      | 581,042      | 474,961      | 548,813      | 525,324      | 533,130      | 203,017     |
| Bedford Township (2) | 241,027     | 172,512      | 173,777     | 156,851      | 163,932      | 381,230      | 379,931      | 394,547      | 404,770      | 5,708       |
| Springfield City     | 395,862     | 379,616      | 335,050     | 373,633      | 358,720      | 344,925      | 360,560      | 357,106      | 354,650      | 240,309     |
| Pennfield Township   | 379,492     | 380,497      | 386,898     | 365,038      | 373,633      | 150,557      | 160,551      | 151,382      | 282,236      | 56,395      |
|                      | 1,604,320   | 1,555,907    | 1,470,097   | 1,461,034    | 1,477,327    | 1,351,673    | 1,449,855    | 1,428,359    | 1,574,786    | 505,429     |
| <b>Totals</b>        | \$9,595,715 | \$10,040,809 | \$9,863,255 | \$10,076,730 | \$10,234,623 | \$10,381,365 | \$11,076,213 | \$11,339,735 | \$11,379,618 | \$5,411,636 |

(1) This class includes commercial and governmental users.

(2) Effective 11/1/99, Emmett and Bedford Townships residential revenues are included above in In-City Residential.

**CITY OF BATTLE CREEK, MICHIGAN**  
**Wastewater System Revenues by User Class as a Percent of Total Revenue**  
**Last Ten Fiscal Years**

| Type of User         | 2006    | 2005    | 2004    | 2003    | 2002    | 2001    | 2000    | 1999    | 1998    | 1997    |
|----------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| <b>In-City</b>       |         |         |         |         |         |         |         |         |         |         |
| Residential          | 28.77%  | 28.00%  | 28.11%  | 26.89%  | 26.00%  | 26.36%  | 25.48%  | 25.96%  | 25.91%  | 36.64%  |
| Commercial (1)       | 18.59%  | 19.34%  | 20.39%  | 20.76%  | 39.13%  | 21.22%  | 41.87%  | 41.94%  | 41.15%  | 26.62%  |
| Industrial           | 35.92%  | 37.17%  | 36.59%  | 37.86%  | 20.44%  | 39.39%  | 19.56%  | 19.50%  | 19.11%  | 27.40%  |
|                      | 83.28%  | 84.50%  | 85.10%  | 85.50%  | 85.57%  | 86.98%  | 86.91%  | 87.40%  | 86.16%  | 90.66%  |
| <b>Outside City</b>  |         |         |         |         |         |         |         |         |         |         |
| Emmett Township (2)  | 6.13%   | 6.21%   | 5.82%   | 5.61%   | 5.68%   | 4.58%   | 4.95%   | 4.63%   | 4.68%   | 3.75%   |
| Bedford Township (2) | 2.51%   | 1.72%   | 1.76%   | 1.56%   | 1.60%   | 3.67%   | 3.43%   | 3.48%   | 3.56%   | 0.11%   |
| Springfield City     | 4.13%   | 3.78%   | 3.40%   | 3.71%   | 3.50%   | 3.32%   | 3.26%   | 3.15%   | 3.12%   | 4.44%   |
| Pennfield Township   | 3.95%   | 3.79%   | 3.92%   | 3.62%   | 3.65%   | 1.45%   | 1.45%   | 1.33%   | 2.48%   | 1.04%   |
|                      | 16.72%  | 15.50%  | 14.90%  | 14.50%  | 14.43%  | 13.02%  | 13.09%  | 12.60%  | 13.84%  | 9.34%   |
| <b>Totals</b>        | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |

(1) This class includes commercial and governmental users.

(2) Effective 11/1/99, Emmett and Bedford Townships residential revenues are included above in In-City Residential.

**CITY OF BATTLE CREEK, MICHIGAN**  
**Wastewater System Eight Year History of Volumes - Unaudited**

| Fiscal<br>Year Ended<br>June 30, | Total<br>Customers | Total Annual Amount of<br>Sewer Treatment Sold<br>(000's Gallons) | Total Annual Amount of<br>Sewer Treated<br>(000's Gallons) |
|----------------------------------|--------------------|-------------------------------------------------------------------|------------------------------------------------------------|
| 2006                             | 21,114             | 3,115                                                             | 3,450                                                      |
| 2005                             | 21,231             | 4,287                                                             | 3,556                                                      |
| 2004                             | 20,521             | 3,874                                                             | 3,506                                                      |
| 2003                             | 20,539             | 4,071                                                             | 3,441                                                      |
| 2002                             | 20,587             | 3,412                                                             | 3,881                                                      |
| 2001                             | 20,539             | 3,518                                                             | 3,928                                                      |
| 2000                             | 20,547             | 3,685                                                             | 4,030                                                      |
| 1999                             | 20,568             | 3,982                                                             | 4,747                                                      |

**CITY OF BATTLE CREEK, MICHIGAN**  
**Wastewater System Sales Volume by User Class (Cubic Feet)**  
**Last Ten Fiscal Years**

| Type of User        | 2006        | 2005        | 2004        | 2003        | 2002        | 2001        | 2000        | 1999        | 1998        | 1997        |
|---------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>In-City</b>      |             |             |             |             |             |             |             |             |             |             |
| Residential         | 125,601,626 | 123,417,582 | 125,022,045 | 123,915,476 | 130,375,450 | 128,255,231 | 128,282,507 | 126,422,885 | 143,915,251 | 137,682,987 |
| Commercial (1)      | 103,331,052 | 92,006,080  | 96,810,569  | 95,602,782  | 95,565,835  | 97,735,031  | 99,577,990  | 98,953,998  | 124,884,532 | 127,552,745 |
| Industrial          | 114,255,306 | 84,933,629  | 84,869,317  | 83,938,785  | 97,352,710  | 110,507,432 | 141,866,481 | 170,408,529 | 208,973,000 | 198,642,903 |
|                     | 343,187,984 | 300,357,291 | 306,701,931 | 303,457,043 | 323,293,995 | 336,497,694 | 369,726,978 | 395,785,412 | 477,772,783 | 463,878,635 |
| <b>Outside City</b> |             |             |             |             |             |             |             |             |             |             |
| Emmett Township     | 22,416,138  | 25,851,285  | 25,479,003  | 26,255,880  | 23,782,984  | 24,401,981  | 22,817,233  | 23,995,129  | 13,583,653  | 13,050,243  |
| Bedford Township    | 7,141,993   | 7,251,759   | 6,967,764   | 6,945,184   | 7,460,413   | 6,957,095   | 6,991,208   | 2,552,162   | 267,159     | 202,066     |
| Springfield City    | 17,858,390  | 17,822,333  | 17,191,832  | 16,500,091  | 17,133,860  | 18,318,679  | 18,648,271  | 18,708,921  | 26,440,601  | 24,068,484  |
| Pennfield Township  | 15,795,100  | 18,974,550  | 18,841,131  | 17,263,203  | 16,211,301  | 16,676,437  | 17,311,150  | 17,272,255  | 7,519,281   | 7,625,181   |
|                     | 63,211,621  | 69,899,927  | 68,479,730  | 66,964,358  | 64,588,558  | 66,354,192  | 65,767,862  | 62,528,467  | 47,810,694  | 44,945,974  |
| <b>Totals</b>       | 406,399,605 | 370,257,218 | 375,181,661 | 370,421,401 | 387,882,553 | 402,851,886 | 435,494,840 | 458,313,879 | 525,583,477 | 508,824,609 |

(1) This class includes commercial and governmental users.



**CITY OF BATTLE CREEK, MICHIGAN**  
**Wastewater System Sales Volume by User Class as a Percent of Total Sales (Cubic Feet)**  
**Last Ten Fiscal Years Ended June 30, 2004**

| Type of User        | 2005    | 2004    | 2003    | 2002    | 2001    | 2000    | 1999    | 1998    | 1997    | 1996    |
|---------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| <b>In-City</b>      |         |         |         |         |         |         |         |         |         |         |
| Residential         | 30.91%  | 33.33%  | 33.32%  | 33.45%  | 33.61%  | 31.84%  | 29.46%  | 27.58%  | 27.38%  | 27.06%  |
| Commercial          | 25.43%  | 24.85%  | 25.80%  | 25.81%  | 24.64%  | 24.26%  | 22.87%  | 21.59%  | 23.76%  | 25.07%  |
| Industrial          | 28.11%  | 22.94%  | 22.62%  | 22.66%  | 25.10%  | 27.43%  | 32.58%  | 37.18%  | 39.76%  | 39.04%  |
|                     | 84.45%  | 81.12%  | 81.75%  | 81.92%  | 83.35%  | 83.53%  | 84.90%  | 86.36%  | 90.90%  | 91.17%  |
| <b>Outside City</b> |         |         |         |         |         |         |         |         |         |         |
| Emmett Township     | 5.52%   | 6.98%   | 6.79%   | 7.09%   | 6.13%   | 6.06%   | 5.24%   | 5.24%   | 2.58%   | 2.56%   |
| Bedford Township    | 1.76%   | 1.96%   | 1.86%   | 1.87%   | 1.92%   | 1.73%   | 1.61%   | 0.56%   | 0.05%   | 0.04%   |
| Springfield City    | 4.39%   | 4.81%   | 4.58%   | 4.45%   | 4.42%   | 4.55%   | 4.28%   | 4.08%   | 5.03%   | 4.73%   |
| Pennfield Township  | 3.89%   | 5.12%   | 5.02%   | 4.66%   | 4.18%   | 4.14%   | 3.98%   | 3.77%   | 1.43%   | 1.50%   |
|                     | 15.55%  | 18.88%  | 18.25%  | 18.08%  | 16.65%  | 16.47%  | 15.10%  | 13.64%  | 9.10%   | 8.83%   |
| <b>Totals</b>       | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |

**CITY OF BATTLE CREEK, MICHIGAN**  
**Wastewater Revenue and Usage - Major Customers**  
**Fiscal Year Ended June 30, 2006**

| <u>Company</u>               | <u>Product or Service</u> | <u>Consumption<br/>(Cu. Ft.)</u> | <u>% of<br/>Total</u> | <u>Revenue</u>       | <u>% of<br/>Total</u> |
|------------------------------|---------------------------|----------------------------------|-----------------------|----------------------|-----------------------|
| Kellogg (Plant)              | Breakfast foods           | 48,061,497                       | 12.98%                | \$ 1,181,361         | 11.98%                |
| Michigan Carton & Paperboard | Paper mill                | 26,485,294                       | 7.15%                 | 654,208              | 6.39%                 |
| Kraft Foods/Post Division    | Breakfast Cereal          | 22,767,379                       | 6.15%                 | 570,754              | 5.58%                 |
| Rock-Tenn/Waldorf Corp.      | Paperboard                | 14,089,572                       | 3.81%                 | 382,378              | 3.74%                 |
| Ralcorp Holdings, Inc.       | Breakfast Cereal          | 12,347,603                       | 3.33%                 | 224,107              | 2.19%                 |
| Battle Creek Health Systems  | Hospital                  | 4,043,000                        | 1.09%                 | 7,591,738            | 74.18%                |
| Kellogg - Research           | Research                  | 2,787,299                        | 0.75%                 | 58,886               | 0.58%                 |
| Calhoun Co. Justice Center   | Jail/Courts               | 2,435,300                        | 0.66%                 | 48,542               | 0.47%                 |
| Federal Center               | Government                | 2,230,144                        | 0.60%                 | 62,663               | 0.61%                 |
| VA Laundry                   | Laundry Services          | 1,995,500                        | 0.54%                 | 42,133               | 0.41%                 |
| Bedford Hills MHP            | Mobile home park          | 1,487,100                        | 0.40%                 | 38,312               | 0.37%                 |
| McCamly Plaza Hotel          | Hotel                     | 1,484,000                        | 0.40%                 | 28,835               | 0.28%                 |
| Gallagher Laundry            | Laundry Services          | 957,300                          | 0.26%                 | 20,243               | 0.20%                 |
| River Oaks Apartments        | Housing                   | 939,800                          | 0.25%                 | 19,859               | 0.19%                 |
| Innkeepers of Battle Creek   | Hotel                     | 888,900                          | 0.24%                 | 18,730               | 0.18%                 |
| VA Laundry                   | Hospital Armstrong        | 493,909                          | 0.13%                 | 146,459              | 1.43%                 |
| Johnson Controls/Hi-Lex      | Heating & Venting         | 443,500                          | 0.12%                 | 9,317                | 0.09%                 |
| Denso Mnftg. Michigan, Inc.  | Automotive parts          | 35,800                           | 0.01%                 | 93,865               | 0.92%                 |
| <b>Totals</b>                |                           | <u>143,972,897</u>               | <u>38.88%</u>         | <u>\$ 11,192,391</u> | <u>109.36%</u>        |

(1) Consumption measured in Cubic Feet (M3).

**CITY OF BATTLE CREEK, MICHIGAN**  
**Largest Wastewater Customers**

| Fiscal<br>Year<br>Ended<br>June 30, | Kellogg Company |              | Michigan Carton & Paperboard |            | Kraft Foods/Post Division |            |
|-------------------------------------|-----------------|--------------|------------------------------|------------|---------------------------|------------|
|                                     | Consumption     | Revenue      | Consumption                  | Revenue    | Consumption               | Revenue    |
| 2006                                | 48,061,497      | \$ 1,181,361 | 26,485,294                   | \$ 654,208 | 22,767,379                | \$ 570,754 |
| 2005                                | 48,468,841      | 1,225,508    | 27,942,722                   | 657,030    | 25,366,208                | 648,051    |
| 2004                                | 48,347,026      | 1,185,451    | 29,798,717                   | 654,208    | 24,533,913                | 593,986    |
| 2003                                | 47,185,600      | 482,405      | 12,210,800                   | 114,110    | 40,534,399                | 428,411    |
| 2002                                | 51,283,300      | 489,581      | 9,257,700                    | 95,413     | 37,645,952                | 380,223    |
| 2001                                | 57,428,950      | 493,595      | 11,948,000                   | 113,754    | 32,090,000                | 304,788    |
| 2000                                | 82,290,550      | 590,816      | 12,778,000                   | 120,647    | 30,355,000                | 289,448    |
| 1999                                | 107,261,870     | 628,962      | 14,560,173                   | 135,949    | 29,566,000                | 304,073    |
| 1998                                | 115,139,000     | 622,540      | 15,000,000                   | 140,916    | 34,264,000                | 308,958    |

Consumption measured in Cubic Feet (M3).

**CITY OF BATTLE CREEK, MICHIGAN**  
**Current Wastewater Rates (From 7/01/05 to 6/30/10)**

**Commodity Charge**

| Date                         | Regular Commodity Rate<br>(per ccf or 750 gallons) | Former Contract Commodity Rate<br>(per ccf or 750 gallons) |
|------------------------------|----------------------------------------------------|------------------------------------------------------------|
| Current                      | \$2.130                                            | \$0.990                                                    |
| July 1, 2005 – June 30, 2006 | \$2.106                                            | \$1.194                                                    |
| July 1, 2006 – June 30, 2007 | \$2.082                                            | \$1.398                                                    |
| July 1, 2007 – June 30, 2008 | \$2.058                                            | \$1.602                                                    |
| July 1, 2008 – June 30, 2009 | \$2.034                                            | \$1.806                                                    |
| July 1, 2009 – June 30, 2010 | \$2.010                                            | \$2.010                                                    |

**Monitoring Charge**

| Date                         | Monitoring Charge (per<br>sample) |
|------------------------------|-----------------------------------|
| Current                      | \$0.00                            |
| July 1, 2005 – June 30, 2006 | \$17.96                           |
| July 1, 2006 – June 30, 2007 | \$35.92                           |
| July 1, 2007 – June 30, 2008 | \$53.88                           |
| July 1, 2008 – June 30, 2009 | \$71.84                           |
| July 1, 2009 – June 30, 2010 | \$89.80                           |

**BOD and Suspended Solids Charges**

| Date                         | BOD Charge<br>(per<br>pound) | (per<br>pound) | Suspended Solids Charge (per<br>pound) |
|------------------------------|------------------------------|----------------|----------------------------------------|
| Current                      | \$0.1050 or \$0.2200         |                | \$0.0900 or \$0.1700                   |
| July 1, 2005 – June 30, 2006 | \$0.1422                     |                | 0.1915                                 |
| July 1, 2006 – June 30, 2007 | \$0.1460                     |                | 0.1966                                 |
| July 1, 2007 – June 30, 2008 | \$0.1498                     |                | 0.2016                                 |
| July 1, 2008 – June 30, 2009 | \$0.1536                     |                | 0.2067                                 |
| July 1, 2009 – June 30, 2010 | \$0.1574                     |                | 0.2118                                 |

**Sewer Customer Only (No Water Service)**

Customer is charged based on 750 cubic feet per month commodity charge, readiness to serve charge (same as outside City performing their own billing), and bill processing charge (below).

| Date                         | Bill Processing Charge |
|------------------------------|------------------------|
| Current                      | \$0.40                 |
| July 1, 2005 – June 30, 2006 | \$0.72                 |
| July 1, 2006 – June 30, 2007 | \$0.74                 |
| July 1, 2007 – June 30, 2008 | \$0.76                 |
| July 1, 2008 – June 30, 2009 | \$0.78                 |
| July 1, 2009 – June 30, 2010 | \$0.81                 |

**Readiness to Serve Charges**

**Inside City and Outside City Customers Billed by City**

| Meter Size | Current | July 1, 2005 to<br>June 30, 2006 | July 1, 2006 to June<br>30, 2007 | July 1, 2007 to<br>June 30, 2008 | July 1, 2008 to June<br>30, 2009 | July 1, 2009 to June<br>30, 2010 |
|------------|---------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| 5/8"       | \$1.45  | \$3.22                           | \$4.94                           | \$6.67                           | \$8.39                           | \$10.15                          |
| ¾"         | \$1.45  | \$3.22                           | \$5.75                           | \$8.29                           | \$10.82                          | \$13.39                          |
| 1"         | \$2.00  | \$3.22                           | \$7.37                           | \$11.53                          | \$15.68                          | \$19.87                          |
| 1.5"       | \$3.40  | \$3.22                           | \$11.42                          | \$19.63                          | \$27.83                          | \$36.07                          |
| 2"         | \$4.90  | \$3.22                           | \$16.28                          | \$29.35                          | \$42.41                          | \$55.51                          |
| 3"         | \$11.20 | \$3.22                           | \$27.62                          | \$52.03                          | \$76.43                          | \$100.87                         |
| 4"         | \$19.00 | \$3.22                           | \$43.82                          | \$84.43                          | \$125.03                         | \$165.67                         |
| 6"         | \$37.55 | \$3.22                           | \$84.32                          | \$165.43                         | \$246.53                         | \$327.67                         |
| 8"         | \$56.10 | \$3.22                           | \$132.92                         | \$262.63                         | \$392.33                         | \$522.07                         |
| 10"        | \$75.50 | \$3.22                           | \$189.62                         | \$376.03                         | \$562.43                         | \$748.87                         |

**Outside City Performing Their Own Billing**

| Meter Size | Current | July 1, 2005 to<br>June 30, 2006 | July 1, 2006 to June<br>30, 2007 | July 1, 2007 to<br>June 30, 2008 | July 1, 2008 to June<br>30, 2009 | July 1, 2009 to June<br>30, 2010 |
|------------|---------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| 5/8"       | \$0.00  | \$0.00                           | \$1.62                           | \$3.24                           | \$4.86                           | \$6.48                           |
| ¾"         | \$0.00  | \$0.00                           | \$2.43                           | \$4.86                           | \$7.29                           | \$9.72                           |
| 1"         | \$0.00  | \$0.00                           | \$4.05                           | \$8.10                           | \$12.15                          | \$16.20                          |
| 1.5"       | \$0.00  | \$0.00                           | \$8.10                           | \$16.20                          | \$24.30                          | \$32.40                          |
| 2"         | \$0.00  | \$0.00                           | \$12.96                          | \$25.92                          | \$38.88                          | \$51.84                          |
| 3"         | \$0.00  | \$0.00                           | \$24.30                          | \$48.60                          | \$72.90                          | \$97.20                          |
| 4"         | \$0.00  | \$0.00                           | \$40.50                          | \$81.00                          | \$121.50                         | \$162.00                         |
| 6"         | \$0.00  | \$0.00                           | \$81.00                          | \$162.00                         | \$243.00                         | \$324.00                         |
| 8"         | \$0.00  | \$0.00                           | \$129.60                         | \$259.20                         | \$388.80                         | \$518.40                         |
| 10"        | \$0.00  | \$0.00                           | \$186.30                         | \$372.60                         | \$558.90                         | \$745.20                         |

**CITY OF BATTLE CREEK,  
MICHIGAN**

**SINGLE AUDIT**

**For the Year Ended June 30, 2006**



**REHMANN ROBSON**

*Certified Public Accountants*

# CITY OF BATTLE CREEK, MICHIGAN SINGLE AUDIT

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YEAR ENDED JUNE 30, 2006

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\* \* \* \* \*



**REHMANN ROBSON**

*Certified Public Accountants*

*A member of* **THE REHMANN GROUP**

 *an independent member of*  
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INTERNATIONAL

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

November 1, 2006

Honorable Mayor and Members  
of the City Commission  
City of Battle Creek, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **CITY OF BATTLE CREEK, MICHIGAN** as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents, and have issued our report thereon dated November 1, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the *City of Battle Creek, Michigan's* internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the *City of Battle Creek, Michigan's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, others within the organization, the City Commission, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, prominent 'L' at the beginning.





**REHMANN ROBSON**

*Certified Public Accountants*

A member of THE REHMANN GROUP



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM  
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133**

November 1, 2006

Honorable Mayor and Members  
of the City Commission  
City of Battle Creek, Michigan

**Compliance**

We have audited the compliance of the **CITY OF BATTLE CREEK, MICHIGAN** with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The **City of Battle Creek, Michigan's** major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs are the responsibility of the **City of Battle Creek, Michigan's** management. Our responsibility is to express an opinion on the **City of Battle Creek, Michigan's** compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on major federal programs occurred. An audit includes examining, on a test basis, evidence about the **City of Battle Creek, Michigan's** compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the **City of Battle Creek, Michigan's** compliance with those requirements.

In our opinion, the *City of Battle Creek, Michigan* complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2006-1.

### **Internal Control Over Compliance**

The management of the *City of Battle Creek, Michigan* is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the *City of Battle Creek, Michigan's* internal control over compliance with requirements that could have a direct and material effect on major federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be a material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to major federal programs being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

### **Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Battle Creek, Michigan* as of and for the year ended June 30, 2006, and have issued our report thereon dated November 1, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the audit committee, management, others within the organization, the City Commission, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Lehmann Johnson", is positioned in the lower right area of the page.

**City of Battle Creek**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2006**

| <b>Federal/Pass-through Grantor<br/>Program Title</b>                                              | <b>CFDA<br/>Number</b> | <b>Federal/<br/>Pass-through<br/>Grantor<br/>Number</b> | <b>Federal<br/>Expenditures</b> |
|----------------------------------------------------------------------------------------------------|------------------------|---------------------------------------------------------|---------------------------------|
| <b>U.S. Department of Housing and Urban Development</b>                                            |                        |                                                         |                                 |
| Direct Programs:                                                                                   |                        |                                                         |                                 |
| Community Development Block Grant:                                                                 | 14.218                 |                                                         |                                 |
| Program year 2001/02                                                                               |                        | B-01-MC-26-0002                                         | \$ 120,065                      |
| Program year 2003/04                                                                               |                        | B-03-MC-26-0002                                         | 91,599                          |
| Program year 2004/05                                                                               |                        | B-04-MC-26-0002                                         | 511,494                         |
| Program year 2005/06                                                                               |                        | B-05-MC-26-0002                                         | 748,610                         |
| Total Community Development Block Grant                                                            |                        |                                                         | <u>1,471,768</u>                |
| Home Investment Partnership Program:                                                               | 14.239                 |                                                         |                                 |
| Program year 1998/1999                                                                             |                        | M-98-MC-26-0203                                         | 18,686                          |
| Program year 1999/00                                                                               |                        | M-99-MC-26-0203                                         | 2,198                           |
| Program year 2000/01                                                                               |                        | M-00-MC-26-0203                                         | (364)                           |
| Program year 2001/02                                                                               |                        | M-01-MC-26-0203                                         | 31,130                          |
| Program year 2002/03                                                                               |                        | M-02-MC-26-0203                                         | 54,112                          |
| Program year 2003/04                                                                               |                        | M-03-MC-26-0203                                         | (7,573)                         |
| Program year 2004/05                                                                               |                        | M-04-MC-26-0203                                         | 51,186                          |
| Program year 2005/06                                                                               |                        | M-05-MC-26-0203                                         | 79,035                          |
| Total Home Investment Partnership Program                                                          |                        |                                                         | <u>228,410</u>                  |
| Passed through the Battle Creek Housing Commission -<br>Public and Indian Housing Drug Elimination | 14.854                 |                                                         | <u>82,573</u>                   |
| <b>Total U.S. Department of<br/>Housing and Urban Development</b>                                  |                        |                                                         | <u>1,782,751</u>                |
| <b>U.S. Department of Justice</b>                                                                  |                        |                                                         |                                 |
| Direct Programs:                                                                                   |                        |                                                         |                                 |
| Local Law Enforcement Block Grant:                                                                 | 16.592                 |                                                         |                                 |
| Program year 2004/06                                                                               |                        | 2004-LB-BX-1238                                         | 27,830                          |
| Program year 2003/05                                                                               |                        | 2003-LB-BX-1769                                         | 47,373                          |
| Total Local Law Enforcement Block Grants                                                           |                        |                                                         | <u>75,203</u>                   |
| Juvenile Justice and Delinquency Prevention<br>Around the Clock Juvenile Justice Program           | 16.541                 | 04-JL-FX-0156                                           | <u>32,968</u>                   |
| Edward Byrne Memorial Justice Assistance Grant (JAG)                                               | 16.738                 |                                                         |                                 |
| Program year 2004/2008                                                                             |                        | 2005-DJ-BX-0666                                         | 33,950                          |
| Program year 2005/2009                                                                             |                        | 2006-DJ-BX-0446                                         | 8,558                           |
| Total JAG Grants                                                                                   |                        |                                                         | <u>42,508</u>                   |
| COPS Secure Our Schools                                                                            | 16.710                 |                                                         |                                 |
| Lakeview Schools                                                                                   |                        | 2003-CK-WX-0397                                         | 49,998                          |
| Battle Creek Public Schools                                                                        |                        | 2005-CK-WX-0552                                         | 35,112                          |
| Total Secure Our Schools                                                                           |                        |                                                         | <u>85,110</u>                   |
| Passed through Grand Valley State University                                                       |                        |                                                         |                                 |
| Project Safe Neighborhood                                                                          | 16.609                 | 4-24001                                                 | 4,081                           |
| Project Safe Neighborhood-Detective                                                                | 16.609                 | 4-24010                                                 | 47,932                          |
| Total Project Safe Neighborhood Grants                                                             |                        |                                                         | <u>52,013</u>                   |

(continued)

**City of Battle Creek**  
**Schedule of Expenditures of Federal Awards (Concluded)**  
**For the Year Ended June 30, 2006**

| <b>Federal/Pass-through Grantor<br/>Program Title</b>                | <b>CFDA<br/>Number</b> | <b>Federal/<br/>Pass-through<br/>Grantor<br/>Number</b> | <b>Federal<br/>Expenditures</b> |
|----------------------------------------------------------------------|------------------------|---------------------------------------------------------|---------------------------------|
| <b>U.S. Department of Justice (concluded)</b>                        |                        |                                                         |                                 |
| Passed through the Substance Abuse Council of Greater Battle Creek - |                        |                                                         |                                 |
| Weed and Seed Program:                                               | 16.595                 |                                                         |                                 |
| Program year 2005-06                                                 |                        |                                                         | \$ 135,035                      |
| Program year 2005-06 - supplemental                                  |                        |                                                         | 19,823                          |
| Total Weed and Seed Program                                          |                        |                                                         | <u>154,858</u>                  |
| <b>Total U.S. Department of Justice</b>                              |                        |                                                         | <u>442,660</u>                  |
| <b>U.S. Department of Transportation</b>                             |                        |                                                         |                                 |
| Direct Programs:                                                     |                        |                                                         |                                 |
| Capital, Planning, and Operating Assistance (Section 5307):          | 20.507                 |                                                         |                                 |
| Operating 2005                                                       |                        | MI-90-X478                                              | 5,524                           |
| Capital 2002                                                         |                        | MI-90-X4419-00                                          | 5,032                           |
| Operating 2006                                                       |                        | MI-90-X498-00                                           | 781,741                         |
| Capital 2005                                                         |                        | MI-90-X478-00                                           | 990                             |
| Total Capital, Planning, and Operating Assistance                    |                        |                                                         | <u>793,287</u>                  |
| Federal Transit Capital Investment Grants                            |                        |                                                         |                                 |
| Bus Purchase (Section 5309)                                          | 20.500                 | MI-04-0003-00                                           | <u>50,562</u>                   |
| <b>Total U.S. Department of Transportation</b>                       |                        |                                                         | <u>843,849</u>                  |
| <b>Environmental Protection Agency</b>                               |                        |                                                         |                                 |
| Passed through the Michigan Department of Environmental Quality:     |                        |                                                         |                                 |
| Nonpoint Source Implementation Grant - Police Department Roof        | 66.460                 | 2004-0152                                               | 303,809                         |
| Capitalization Grants for Drinking Water State Revolving Funds:      | 66.468                 |                                                         |                                 |
| Program year 2005/06                                                 |                        |                                                         | <u>26,777</u>                   |
| <b>Total Environmental Protection Agency</b>                         |                        |                                                         | <u>330,586</u>                  |
| <b>U.S. Department of Homeland Security</b>                          |                        |                                                         |                                 |
| Passed through the Michigan Department of State Police:              |                        |                                                         |                                 |
| 2003 Homeland Security Grant Program- SHSP                           | 97.004                 |                                                         | 1,494                           |
| 2003 Part II RRTN- equipment pass through                            | 97.004                 |                                                         | 250,817                         |
| 2004 Homeland Security Grant Program- equipment pass through         | 97.004                 |                                                         | 65,563                          |
| 2004 Homeland Security Grant Program - Interoperable Comm. Eq.       | 97.004                 |                                                         | 22,000                          |
| 2004 Homeland Security Grant Program - SHSP                          | 97.004                 |                                                         | 179,559                         |
| 2004 Homeland Security Grant Program - LETPP                         | 97.004                 |                                                         | 94,079                          |
| 2005 Homeland Security Grant Program - SHSP                          | 97.004                 |                                                         | <u>139,329</u>                  |
| Total Passed through the Michigan State Police                       |                        |                                                         | <u>752,841</u>                  |
| Emergency Management Performance Grants:                             |                        |                                                         |                                 |
| Program year 2004/05                                                 | 97.042                 |                                                         | 8,871                           |
| Program year 2005/06                                                 | 97.042                 |                                                         | <u>25,142</u>                   |
| <b>Total U.S. Department of Homeland Security</b>                    |                        |                                                         | <u>786,854</u>                  |
| <b>Total Expenditures of Federal Awards</b>                          |                        |                                                         | <u><u>\$ 4,186,700</u></u>      |

# CITY OF BATTLE CREEK, MICHIGAN

## Notes To Schedule Of Expenditures Of Federal Awards

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### 1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of the City of Battle Creek, Michigan (the "City"). Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the schedule.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

The City of Battle Creek reporting entity is defined in Note I of the City's basic financial statements.

### 2. BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note I of the City's basic financial statements.

### 3. SUBRECIPIENTS

Of the federal expenditures presented in the schedule, the City provided federal awards to subrecipients as follows:

| <b>Program Title</b>                           | <b>Federal CFDA<br/>Number</b> | <b>Amount Provided<br/>to Subrecipients</b> |
|------------------------------------------------|--------------------------------|---------------------------------------------|
| Community Development Block Grant              | 14.218                         | \$ 294,800                                  |
| HOME Investment Partnership Program            | 14.239                         | 195,526                                     |
| Juvenile Justice and Delinquency<br>Prevention | 16.541                         | 32,968                                      |
| COPS grant- secure our schools                 | 16.710                         | 85,110                                      |
| Weed & Seed                                    | 16.595                         | 22,500                                      |
| Justice Assistance Grant                       | 16.738                         | 8,558                                       |

\* \* \* \* \*

# CITY OF BATTLE CREEK, MICHIGAN

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

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### SECTION I - SUMMARY OF AUDITORS' RESULTS

#### Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ yes   X   no

Reportable condition(s) identified  
not considered to be material weaknesses? \_\_\_\_\_ yes   X   none reported

Noncompliance material to financial statements  
noted? \_\_\_\_\_ yes   X   no

#### Federal Awards

Internal Control over major programs:

Material weakness(es) identified? \_\_\_\_\_ yes   X   no

Reportable condition(s) identified  
not considered to be material weaknesses? \_\_\_\_\_ yes   X   none reported

Type of auditors' report issued on compliance  
for major programs: Unqualified

Any audit findings disclosed that are required  
to be reported in accordance with  
Circular A-133, Section 510(a)?   X   yes \_\_\_\_\_ no

# **CITY OF BATTLE CREEK, MICHIGAN**

## **Schedule of Findings and Questioned Costs (Concluded)**

**For the Year Ended June 30, 2006**

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### **SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)**

Identification of major programs:

| <b><u>CFDA Number(s)</u></b> | <b><u>Name of Federal Program or Cluster</u></b> |
|------------------------------|--------------------------------------------------|
| 14.239                       | Home Investment Partnership Program              |
| 66.460                       | Non-point Source Implementation Grant            |
| 97.004                       | Homeland Security Grant                          |

Dollar threshold used to distinguish  
between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?   X   yes        no

### **SECTION II – FINANCIAL STATEMENT FINDINGS**

None.

### **SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

2006-1 Suspension and Debarment  
Non-point Source Implementation Grant  
Homeland Security Grant Program

Vendors used in projects funded by the Non-point Source Implementation and Homeland Security grants are required to be verified for suspension and/or debarment. During our audit inquiries, we were advised by the individuals in charge of each grant that they did not check for suspension and debarment themselves because they believed that this responsibility belonged to the City's Purchasing Department, yet in talking with personnel in the Purchasing Department they were not aware of this requirement. Since this matter arose, internal procedures have been implemented for the Purchasing Department to receive copies of all grant agreements prior to bidding out any contracts so that they are aware of, and can comply with, all requirements pertaining to any grant.

### **SECTION IV – PRIOR YEAR FINDINGS**

None

\* \* \* \* \*



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP



November 1, 2006

To the City Commissioners  
City of Battle Creek, Michigan

We have audited the basic financial statements of the **City of Battle Creek** as of and for the year ended June 30, 2006, and have issued our report thereon dated November 1, 2006. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility Under Generally Accepted Auditing Standards and OMB Circular A-133**

As stated in our engagement letter dated July 20, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on major federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the City's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City's compliance with those requirements.



### **Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application.

The City adopted the provisions of Government Accounting Standards Board Statement No. 44, *Economic Condition Reporting: The Statistical Section*, during the year fiscal year ended June 30, 2006. The adoption of this new standard applied only to the statistical section of the comprehensive annual financial report and had no effect on the financial statements.

We noted no transactions entered into by the City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the liability for uninsured risks of loss, including incurred but not reported claims, which are accounted for in certain of the City's self-insurance internal service fund. We relied upon the work of the City's third-party administrator and internal risk manager for the estimated liabilities on reported claims and the work of the City's internal risk manager for the calculation of the estimated liabilities for incurred but not reported claims based on GASB Statement No. 10, as amended by GASB Statement No. 30 and Interpretation No. 4.
- Management's estimate of the collectability of receivables (excluding those receivables for which the City has the right to levy a lien against the applicable property owner). We evaluated the key factors and assumptions used to develop the allowances for uncollectable accounts in determining that they are reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the original cost and accumulated depreciation of infrastructure capital assets. We evaluated the key factors/assumptions used to develop the original cost and accumulated depreciation of the infrastructure capital assets in determining that they are reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the useful lives of depreciable capital assets – i.e., the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

### **Significant Audit Adjustments**

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the City that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. We proposed several audit adjustments that, in our judgment, both individually and in the aggregate, had a significant effect on the City, all of which were recorded by the City, and are reflected in the financial statements.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### **Difficulties Encountered in Performing the Audit**

We encountered no difficulties in dealing with management in performing our audit.

This letter is intended for the use of the City Commissioners and management of the City of Battle Creek, the State of Michigan, and respective federal and state grantor agencies. However, this report is a matter of public record and its distribution is not limited.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Lehmann Johnson".

# **CITY OF BATTLE CREEK, MICHIGAN**

## **COMMENTS AND RECOMMENDATIONS**

**For the Year Ended June 30, 2006**

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During our audit we became aware of certain matters that are opportunities for strengthening internal control and operating efficiency. This memorandum summarizes our comments and recommendations regarding those matters, and does not affect our report dated November 1, 2006, on the financial statements of the City of Battle Creek, Michigan.

We will review the status of these comments during our next audit engagement. We have already discussed these matters with City management and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist the City in implementing the recommendations.

### **Monitoring of Water and Wastewater Fund Receivables**

During our testing of water and wastewater usage receivables, we noted from an aging report that the City had a balance of \$1,022,098 for amounts older than 120 days (we noted a similar situation last year) for which the collection activity is not clearly documented. Supposedly, certain accounts are sent to an outside collection agency and other may be approved for write off, but there is not a clear audit trail to document these measures with specific accounts. Part of the problem in being able to appropriately track the collection efforts is the functionality utility billing software and the City's procedures aside from the software to track these matters. Also, the infrequency of the meetings of the special board that deals with these past due receivables is a contributing factor.

Accordingly, we recommend that the City closely review its policies and procedures regarding past due water and wastewater usage receivables and determine a course action to more effectively deal with them.

\* \* \* \* \*